

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the quarterly period ended September 30, 2004

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

Commission File No. 0-29092

**PRIMUS TELECOMMUNICATIONS GROUP,
INCORPORATED**

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

54-1708481

(I.R.S. Employer Identification No.)

**1700 Old Meadow Road, Suite 300,
McLean, VA**

(Address of principal executive offices)

22102

(Zip Code)

(703) 902-2800

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding as of October 31, 2004
Common Stock \$.01 par value	89,884,259

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

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PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED
CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS

(in thousands, except per share amounts)
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
NET REVENUE	\$334,324	\$328,265	\$1,013,962	\$948,948
OPERATING EXPENSES				
Cost of revenue (exclusive of depreciation included below)	204,781	195,804	613,473	582,190
Selling, general and administrative	100,438	87,280	290,162	254,146
Depreciation and amortization	22,730	21,160	69,377	62,713
Loss on sale of fixed assets	23	—	1,896	804
Asset impairment write-down	—	—	—	537
Total operating expenses	327,972	304,244	974,908	900,390
INCOME FROM OPERATIONS	6,352	24,021	39,054	48,558
INTEREST EXPENSE	(11,206)	(16,692)	(37,864)	(46,691)
GAIN (LOSS) ON EARLY EXTINGUISHMENT OF DEBT	2,914	(1,382)	(10,982)	13,252
INTEREST AND OTHER INCOME	9,864	185	11,152	385
FOREIGN CURRENCY TRANSACTION GAIN (LOSS)	9,694	431	(6,103)	25,249
INCOME (LOSS) BEFORE INCOME TAXES	17,618	6,563	(4,743)	40,753
INCOME TAX EXPENSE	(1,465)	(728)	(4,045)	(3,681)
NET INCOME (LOSS)	16,153	5,835	(8,788)	37,072
ACCRETED AND DEEMED DIVIDEND ON CONVERTIBLE PREFERRED STOCK	—	—	—	(1,678)
INCOME (LOSS) ATTRIBUTABLE TO COMMON STOCKHOLDERS	\$ 16,153	\$ 5,835	\$ (8,788)	\$ 35,394
INCOME (LOSS) PER COMMON SHARE:				
Basic	\$ 0.18	\$ 0.09	\$ (0.10)	\$ 0.54
Diluted	\$ 0.16	\$ 0.06	\$ (0.10)	\$ 0.41
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:				
Basic	89,837	65,398	89,408	65,214
Diluted	105,539	91,763	89,408	90,026

See notes to consolidated condensed financial statements.

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED
CONSOLIDATED CONDENSED BALANCE SHEETS
(in thousands, except share amounts)
(unaudited)

	September 30, 2004	December 31, 2003
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 52,941	\$ 64,066
Accounts receivable (net of allowance for doubtful accounts receivable of \$18,312 and \$20,975)	182,430	200,817
Prepaid expenses and other current assets	42,756	36,930
	<hr/>	<hr/>
Total current assets	278,127	301,813
RESTRICTED CASH	16,552	12,463
PROPERTY AND EQUIPMENT - Net	313,333	341,167
GOODWILL	77,422	59,895
OTHER INTANGIBLE ASSETS - Net	31,482	22,711
OTHER ASSETS	18,234	13,115
	<hr/>	<hr/>
TOTAL ASSETS	\$ 735,150	\$ 751,164
	<hr/>	<hr/>
LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES:		
Accounts payable	\$ 117,661	\$ 108,615
Accrued interconnection costs	77,522	89,993
Accrued expenses and other current liabilities	64,370	69,456
Accrued income taxes	16,310	22,387
Accrued interest	9,876	12,852
Current portion of long-term obligations	15,384	24,385
	<hr/>	<hr/>
Total current liabilities	301,123	327,688
LONG-TERM OBLIGATIONS	545,531	518,066
OTHER LIABILITIES	1,437	1,776
	<hr/>	<hr/>
Total liabilities	848,091	847,530
	<hr/>	<hr/>
COMMITMENTS AND CONTINGENCIES (See Note 7.)		
STOCKHOLDERS' DEFICIT:		
Preferred stock, Series A and B, \$0.01 par value - 1,895,050 shares authorized; none issued and outstanding; Series C, \$0.01 par value - 559,950 shares authorized; none issued and outstanding	—	—
Common stock, \$0.01 par value - 150,000,000 shares authorized; 89,776,219 and 88,472,546 shares issued and outstanding	898	885
Additional paid-in capital	658,397	651,159
Accumulated deficit	(693,865)	(685,077)
Accumulated other comprehensive loss	(78,371)	(63,333)
	<hr/>	<hr/>
Total stockholders' deficit	(112,941)	(96,366)
	<hr/>	<hr/>
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	\$ 735,150	\$ 751,164
	<hr/>	<hr/>

See notes to consolidated condensed financial statements.

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(in thousands)
(unaudited)

	Nine Months Ended September 30,	
	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ (8,788)	\$ 37,072
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Provision for doubtful accounts receivable	12,773	17,377
Stock issuance - 401(k) Plan and Restricted Stock Plan	—	258
Non-cash compensation expense	—	245
Depreciation, amortization and accretion	69,377	62,763
Loss on sale of fixed assets	1,896	804
Asset impairment write-down	—	537
Equity investment (gain) loss	(81)	688
(Gain) loss on early extinguishment of debt	10,982	(13,252)
Minority interest share of loss	(335)	(311)
Unrealized foreign currency transaction (gain) loss on intercompany and foreign debt	4,031	(27,432)
Changes in assets and liabilities, net of acquisitions:		
(Increase) decrease in accounts receivable	3,809	(25,147)
(Increase) decrease in prepaid expenses and other current assets	(4,005)	9,243
(Increase) decrease in restricted cash	(4,444)	641
(Increase) decrease in other assets	(1,331)	2,589
Increase (decrease) in accounts payable	8,301	(10,320)
Decrease in accrued expenses, accrued income taxes, other current liabilities and other liabilities	(37,682)	(3,176)
Decrease in accrued interest	(2,964)	(3,041)
Net cash provided by operating activities	51,539	49,538
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(26,257)	(14,372)
Cash used for business acquisitions, net of cash acquired	(28,196)	(965)
Net cash used in investing activities	(54,453)	(15,337)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of long-term obligations, net	235,240	135,925
Purchase of the Company's debt securities	(207,472)	(52,549)
Principal payments on capital leases, vendor financing and other long-term obligations	(30,586)	(98,471)
Proceeds from sale of convertible preferred stock, net	—	8,895
Proceeds from sale of common stock	1,179	655
Net cash used in financing activities	(1,639)	(5,545)
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(6,572)	1,603
NET CHANGE IN CASH AND CASH EQUIVALENTS	(11,125)	30,259
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	64,066	92,492
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 52,941	\$ 122,751
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for interest	\$ 39,284	\$ 48,147
Cash paid for taxes	\$ 983	\$ —
Non-cash investing and financing activities:		
Leased fiber capacity additions	\$ 4,167	\$ 2,938
Common stock issued for business acquisitions	\$ 6,072	\$ —
Acquisition of customer list, financed by long-term obligations	\$ —	\$ 8,102

See notes to consolidated condensed financial statements.

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED
CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(in thousands)
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
NET INCOME (LOSS)	\$ 16,153	\$ 5,835	\$ (8,788)	\$37,072
OTHER COMPREHENSIVE INCOME (LOSS):				
Foreign currency translation adjustment	(5,619)	2,855	(15,038)	2,433
COMPREHENSIVE INCOME (LOSS)	<u>\$ 10,534</u>	<u>\$ 8,690</u>	<u>\$(23,826)</u>	<u>\$39,505</u>

See notes to consolidated condensed financial statements.

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(UNAUDITED)

1. BASIS OF PRESENTATION

The accompanying unaudited consolidated condensed financial statements of Primus Telecommunications Group, Incorporated and subsidiaries (“the Company”) have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial reporting and Securities and Exchange Commission (“SEC”) regulations. Certain information and footnote disclosures normally included in the financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such principals and regulations. In the opinion of management, the financial statements reflect all adjustments (all of which are of a normal and recurring nature), which are necessary to present fairly the financial position, results of operations, cash flows and comprehensive income (loss) for the interim periods. The results for the nine months ended September 30, 2004 are not necessarily indicative of the results that may be expected for the year ending December 31, 2004.

The financial statements should be read in conjunction with the Company’s audited consolidated financial statements included in the Company’s most recently filed Form 10-K/A.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation – The consolidated condensed financial statements include the Company’s accounts, its wholly-owned subsidiaries and all other subsidiaries controlled by the Company. The Company owns 51% of the common stock of Matrix Internet, S.A. (“Matrix”) and 51% of CS Communications Systems GmbH and CS Network GmbH (“Citrus”), in all of which the Company has a controlling interest. Additionally, the Company has a controlling interest in Direct Internet Limited (“DIL”), pursuant to a convertible loan which can be converted at any time into equity of DIL in an amount as agreed upon between the Company and DIL and permitted under local law. All intercompany profits, transactions and balances have been eliminated in consolidation. The Company uses the equity method of accounting for its investment in Bekkoame Internet, Inc. (“Bekko”). All other investments in affiliates where the Company does not have significant influence are carried at cost.

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Stock-Based Compensation – At September 30, 2004, the Company had three stock-based employee compensation plans. The Company uses the intrinsic value method to account for those plans under the recognition and measurement principles of Accounting Principles Board (“APB”) Opinion No. 25, “Accounting for Stock Issued to Employees” and related interpretations. The following table illustrates the effect on income (loss) attributable to common stockholders and income (loss) per common share if the Company had applied the fair value recognition provisions of Statement of Financial Accounting Standards (“SFAS”) No. 123, “Accounting for Stock-Based Compensation,” to stock-based employee compensation (in thousands, except per share amounts):

	For the three months ended September 30,		For the nine months ended September 30,	
	2004	2003	2004	2003
Net income (loss)	\$ 16,153	\$ 5,835	\$ (8,788)	\$ 37,072
Deduct: Accreted and deemed dividend on convertible preferred stock	—	—	—	(1,678)
Income (loss) attributed to common shareholders - basic, as reported	16,153	5,835	(8,788)	35,394
Add: Stock-based employee compensation expense included in reported net income (loss), net of related tax effect	—	—	—	503
Deduct: Total stock-based compensation expense determined under fair value based method for all awards, net of income taxes	(935)	(641)	(2,100)	(2,120)
Pro forma income (loss) attributable to common stockholders - basic	\$ 15,218	\$ 5,194	\$ (10,888)	\$ 33,777
Net income (loss)	\$ 16,153	\$ 5,835	\$ (8,788)	\$ 37,072
Add: Interest expense on 2003 Convertible Senior Notes	1,238	—	—	—
Income (loss) attributed to common shareholders - diluted, as reported	17,391	5,835	(8,788)	37,072
Add: Stock-based employee compensation expense included in reported net income (loss), net of related tax effect	—	—	—	503
Deduct: Total stock-based compensation expense determined under fair value based method for all awards, net of income taxes	(935)	(641)	(2,100)	(2,120)
Pro forma income (loss) attributable to common stockholders - diluted	\$ 16,456	\$ 5,194	\$ (10,888)	\$ 35,455
Basic income (loss) per common share:				
As reported	\$ 0.18	\$ 0.09	\$ (0.10)	\$ 0.54
Pro forma	\$ 0.17	\$ 0.08	\$ (0.12)	\$ 0.52
Diluted income (loss) per common share:				
As reported	\$ 0.16	\$ 0.06	\$ (0.10)	\$ 0.41
Pro forma	\$ 0.16	\$ 0.06	\$ (0.12)	\$ 0.39
Weighted average common shares outstanding:				
Basic	89,837	65,398	89,408	65,214
Diluted	105,539	91,763	89,408	90,026

Reclassification – Certain prior year amounts have been reclassified to conform to current year presentations.

Recent Accounting Pronouncements

In March 2004, the Financial Accounting Standards Board (“FASB”) approved Emerging Issues Task Force (“EITF”) Issue 03-6, “Participating Securities and the Two-Class Method under SFAS 128.” EITF Issue 03-6 supersedes the guidance in Topic No. D-95, “Effect of Participating Convertible Securities on the Computation of Basic Earnings per Share,” and requires the use of the two-class method of participating securities. The two-class method is an earnings allocation formula that determines earnings per share for each class of common stock and participating security according to dividends declared or accumulated and participation rights in undistributed earnings. EITF Issue 03-6 is effective for reporting periods beginning after March 31, 2004 and should be applied by restating previously reported earnings per share. As discussed in Note 9 - “Basic and Diluted Income (Loss) Per Common Share,” the adoption of EITF Issue 03-6 did not have an effect on the Company’s consolidated financial position or results of operations.

In January 2003, the FASB issued FASB Interpretation (“FIN”) No. 46(R), “Consolidation of Variable Interest Entities.” FIN No. 46(R) clarifies the application of Accounting Research Bulletin (“ARB”) No. 51, “Consolidated Financial Statements,” to certain entities in which the equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional

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subordinated financial support from other parties. FIN No. 46(R) applies immediately to variable interest entities created after January 31, 2003, or in which the Company obtains an interest after that date. With respect to variable interest entities created prior to February 1, 2003, FIN No. 46(R) was effective March 31, 2004. The adoption of FIN No. 46(R) did not have a material effect on the Company's consolidated financial position or results of operations.

3. ACQUISITIONS

In July 2004, the Company's wholly-owned subsidiary, 3082833 Nova Scotia Company ("Primus Canada"), acquired certain assets of 3588599 Canada Inc., dba Sun Telecom Group (the "Seller"), a Canadian telecommunications provider, including certain of the Seller's customer contracts, access to a portion of the Seller's customer base and certain related assets for total consideration of \$1.6 million (2.2 million Canadian dollars (CAD)) paid in cash, subject to adjustments related to final customer calculations.

In June 2004, the Company's wholly-owned subsidiary, Primus Canada acquired Onramp Network Services Inc. ("Onramp"), a provider of Internet services and solutions for businesses. Primus Canada acquired 100% of the issued stock of Onramp for a total consideration of \$4.1 million (5.6 million CAD), paid in cash.

In April 2004, Primus Canada acquired Magma Communications Ltd. ("Magma"), a provider of Internet solutions to corporate, government and residential customers in Toronto, Ottawa and Montreal. Primus Canada acquired 100% of the issued stock of Magma for a total consideration of \$11.3 million (15.1 million CAD), a portion of which was paid in cash and the balance in 734,018 shares of the Company's common stock valued at \$6.1 million.

In February 2004, the Company's wholly-owned subsidiary in Australia, Primus Telecommunications Pty Ltd ("Primus Telecom") acquired the Internet service and interactive media businesses of AOL/7 Pty Ltd ("AOL/7"). AOL/7 was a joint venture between America Online Inc. ("AOL"), a wholly-owned subsidiary of Time Warner Inc., AAPT Limited, a unit of the Telecom New Zealand Group, and Seven Network Limited. Primus Telecom acquired 100% of the issued stock of AOL/7 which provides the Company with the customer base, content, content development and online advertising businesses, as well as a license for the AOL brand in Australia (until February 2006), for a total consideration of approximately \$19.5 million (25.3 million Australian dollars (AUD)), paid in cash.

In June 2003, Primus Canada acquired 100% of Telesonic Communications, Inc. ("TCI"), a Canadian prepaid card company, for \$6.2 million (8.5 million CAD) in cash. At December 31, 2003, \$2.4 million remained payable, \$1.2 million of which will be paid in 2004 and \$1.2 million of which will be paid in 2005. In September 2004, the Company paid \$0.6 million related to the original purchase price. The terms of the acquisition agreement provide for additional consideration to be paid if the acquired company's adjusted revenues exceed certain targeted levels through 2005. The additional amount is calculated as a percentage of the excess adjusted revenue earned over a specified target with no stated maximum, and will be recorded as additional cost of the acquired company in accordance with SFAS No. 141, "Business Combinations." In August 2004, the Company recorded an additional \$0.7 million (0.9 million CAD) as a result of revenue exceeding targeted levels. This amount remains payable at September 30, 2004.

The Company has accounted for these acquisitions using the purchase method of accounting, and accordingly, the net assets and results of operations of the acquired companies have been included in the Company's consolidated financial statements since the acquisition date. The initial purchase prices, including direct costs, of the Company's acquisitions were allocated to the net assets acquired, including intangible assets, and liabilities assumed, based on their fair values at the acquisition date. As of September 30, 2004, the allocations for certain acquisitions have not been finalized in accordance with SFAS No. 141 "Business Combinations," due to the timing of the acquisitions. Had these companies been acquired on January 1, 2004, the results of their operations would not have materially impacted the consolidated financial statements of the Company, and therefore, pro forma financial information has not been presented.

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The following table summarizes the preliminary allocation of the consideration paid for the fair values of the assets acquired and the liabilities assumed at the date of acquisition (in thousands):

	Sun Telecom	Onramp	Magma	AOL/7	Total
Current assets	\$ —	\$ 920	\$ 1,433	\$ 2,902	\$ 5,255
Property and equipment	—	155	2,999	61	3,215
Goodwill	—	666	7,332	8,784	16,782
Customer list	1,638	3,681	3,671	10,152	19,142
Brand name	—	—	—	3,627	3,627
Current liabilities	—	(1,164)	(3,213)	(6,034)	(10,411)
Long-term debt	—	(139)	(917)	—	(1,056)
Net assets acquired	\$1,638	\$ 4,119	\$11,305	\$19,492	\$ 36,554

4. GOODWILL AND OTHER INTANGIBLE ASSETS

Acquired intangible assets subject to amortization consisted of the following (in thousands):

	September 30, 2004			December 31, 2003		
	Gross Carrying Amount	Accumulated Amortization	Net Book Value	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Customer lists	\$187,208	\$ (159,060)	\$28,148	\$166,446	\$ (145,099)	\$21,347
Other	5,766	(2,432)	3,334	2,622	(1,258)	1,364
Total	\$192,974	\$ (161,492)	\$31,482	\$169,068	\$ (146,357)	\$22,711

Amortization expense for customer lists and other intangible assets for the three months ended September 30, 2004 and 2003 was \$5.0 million and \$5.2 million, respectively. Amortization expense for customer lists and other intangible assets for the nine months ended September 30, 2004 and 2003 was \$14.8 million and \$15.5 million, respectively. The Company expects amortization expense for customer lists and other intangible assets for the fiscal years ending December 31, 2004, 2005, 2006, 2007 and 2008 to be approximately \$19.8 million, \$17.4 million, \$4.6 million, \$2.2 million and \$2.3 million, respectively.

The carrying amount of acquired intangible assets not subject to amortization consisted of the following (in thousands):

	September 30, 2004	December 31, 2003
Goodwill	\$ 77,422	\$ 59,895

The changes in the carrying amount of goodwill for the nine months ended September 30, 2004 are as follows (in thousands):

	North America	Europe	Asia-Pacific	Total
Balance as of January 1, 2004	\$50,025	\$1,927	\$ 7,943	\$59,895
Goodwill acquired during period	7,998	—	8,784	16,782
Effect of change in foreign currency exchange rates	1,711	(35)	(931)	745
Balance as of September 30, 2004	\$59,734	\$1,892	\$ 15,796	\$77,422

5. LONG-TERM OBLIGATIONS

Long-term obligations consisted of the following (in thousands):

	September 30, 2004	December 31, 2003
Obligations under capital leases	\$ 2,144	\$ 4,040
Leased fiber capacity	34,787	40,509
Financing facility and other	7,250	22,626
Senior notes	317,615	272,157
Convertible senior notes	132,000	132,000
Convertible subordinated debentures	67,119	71,119
	<hr/>	<hr/>
Subtotal	560,915	542,451
Less: Current portion of long-term obligations	(15,384)	(24,385)
	<hr/>	<hr/>
Total long-term obligations	\$ 545,531	\$ 518,066

The indentures governing the senior notes, convertible senior notes and convertible subordinated debentures, as well as other credit arrangements, contain certain financial and other covenants that, among other things, will restrict the Company's ability to incur further indebtedness and make certain payments, including the payment of dividends and repurchase of subordinated debt.

Senior Notes, Convertible Senior Notes and Convertible Subordinated Debentures

In January 2004, Primus Telecommunications Holding, Inc. (PTHI), a direct, wholly-owned subsidiary of the Company, completed the sale of \$240 million in aggregate principal amount of 8% senior notes due 2014 ("2004 Senior Notes") with semi-annual interest payments due on January 15th and July 15th, with early redemption at a premium to par at PTHI's option at any time after January 15, 2009. The Company recorded \$7.0 million in costs associated with the issuance of the 2004 Senior Notes, which have been recorded as deferred financing costs in other assets. The effective interest rate at September 30, 2004 was 8.4%. During specified periods, PTHI may redeem up to 35% of the original aggregate principal amount with the net cash proceeds of certain equity offerings of the Company. During the three months ended June 30, 2004, the Company retired \$5.0 million principal amount of the notes for \$4.6 million in cash through open market purchases. See the table below for detail on debt repurchases since December 31, 2002.

In September 2003, the Company completed the sale of \$132 million in aggregate principal amount of 3¾% convertible senior notes due 2010 ("2003 Convertible Senior Notes") with semi-annual interest payments due on March 15th and September 15th. The Company recorded \$5.2 million in costs associated with the issuance of the 2003 Convertible Senior Notes, which have been recorded as deferred financing costs in other assets. The effective interest rate at September 30, 2004 was 4.4%. Holders of these notes may convert their notes into the Company's common stock at any time prior to maturity at an initial conversion price of \$9.3234 per share, which is equivalent to an initial conversion rate of 107.257 shares per \$1,000 principal amount of the notes, subject to adjustment in certain circumstances. The notes are convertible in the aggregate into 14,157,925 shares of the Company's common stock.

In February 2000, the Company completed the sale of \$250 million in aggregate principal amount of 5¾% convertible subordinated debentures due 2007 ("2000 Convertible Subordinated Debentures") with semi-annual interest payments due on February 15th and August 15th. On March 13, 2000, the Company announced that the initial purchasers of the 2000 Convertible Subordinated Debentures had exercised their \$50 million over-allotment option granted pursuant to a purchase agreement dated February 17, 2000. The debentures were convertible into approximately 6,025,170 shares of the Company's common stock based on a conversion price of \$49.7913 per share. During the years ended December 31, 2001 and 2000, the Company reduced the principal balance of the debentures through \$36.4 million of open market purchases and \$192.5 million of conversions to its common stock. The principal that was converted to common stock was retired upon conversion and in February 2002, the Company retired all of the 2000 Convertible Subordinated Debentures that it had previously purchased in December 2000 and January 2001. The retired principal had been held by the Company as treasury bonds and had been recorded as a reduction of long-term obligations. During the three months ended September 30, 2004, the Company retired \$4.0 million principal amount

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of the 2000 Convertible Subordinated Debentures for \$3.0 million in cash through open market purchases. See table below for detail on debt repurchases since December 31, 2002.

In October 1999, the Company completed the sale of \$250 million in aggregate principal amount of 12¾% senior notes due 2009 (“October 1999 Senior Notes”). The October 1999 Senior Notes are due October 15, 2009, with semi-annual interest payments due on October 15th and April 15th with early redemption at a premium to par at the Company’s option at any time after October 15, 2004. During the years ended December 31, 2002, 2001 and 2000, the Company reduced the principal balance of these senior notes through open market purchases. In June and September 2002, the Company retired all of the October 1999 Senior Notes that it had previously purchased in the principal amount of \$134.3 million in aggregate. The retired principal had been held by the Company as treasury bonds and had been recorded as a reduction of long-term obligations. In February and March 2004, the Company retired \$24.4 million principal amount of its October 1999 Senior Notes for \$27.3 million in cash through open market purchases. In May 2004, the Company retired \$0.5 million principal amount of its October 1999 Senior Notes for \$0.6 million in cash through open market purchases. During the three months ended September 30, 2004, the Company retired \$8.1 million principal amount of the notes for \$7.1 million in cash through open market purchases. See the table below for detail on debt repurchases since December 31, 2002.

In January 1999, the Company completed the sale of \$200 million in aggregate principal amount of 11¼% senior notes due 2009 (“January 1999 Senior Notes”) with semi-annual interest payments due on January 15th and July 15th. The January 1999 Senior Notes were due January 15, 2009 with early redemption at a premium to par at the Company’s option at any time after January 15, 2004. In June 1999, in connection with the Telegroup acquisition, the Company issued \$45.5 million in aggregate principal amount of its 11¼% senior notes due 2009 pursuant to the January 1999 Senior Notes indenture. During the six months ended June 30, 2003 and the years ended December 31, 2002 and 2001, the Company reduced the principal balance of these senior notes through open market purchases. In June, November and December 2002 and April 2003, the Company retired all of the January 1999 Senior Notes that it had previously purchased in the principal amount of \$135.6 million in aggregate. The retired principal had been held by the Company as treasury bonds and had been recorded as a reduction of long-term obligations. In February 2004, the Company satisfied and discharged the entire remaining principal balance of \$109.9 million of its January 1999 Senior Notes at 105.625% of par together with accrued interest to the date of redemption. See the table below for detail on debt repurchases since December 31, 2002.

On May 19, 1998, the Company completed the sale of \$150 million in aggregate principal amount of 9 7/8% senior notes due 2008 (“1998 Senior Notes”) with semi-annual interest payments due on May 15th and November 15th. The 1998 Senior Notes were due May 15, 2008 with early redemption at a premium to par at the Company’s option any time after May 15, 2003. During the six months ended June 30, 2003 and the years ended December 31, 2002 and 2001, the Company reduced the principal balance of these senior notes through open market purchases. In June, October and December 2002 and April 2003, the Company retired all of the 1998 Senior Notes that it had previously purchased in the principal amount of \$103.4 million in aggregate. The retired principal had been held by the Company as treasury bonds and had been recorded as a reduction of long-term obligations. In February 2004, the Company satisfied and discharged the entire remaining principal balance of \$46.6 million of its 1998 Senior Notes at 104.938% of par together with accrued interest to the date of redemption. See the table below for detail on debt repurchases since December 31, 2002.

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The following table shows the changes in the balances of the Company's senior notes, convertible senior notes and convertible subordinated debentures for the nine months ended September 30, 2004 and the year ended December 31, 2003:

For the nine months ended September 30, 2004

	Balance at December 31, 2003	Debt Issuance	Principal Purchases	Warrant Amortization and Write-off	Balance at September 30, 2004	Cash Paid for Purchase of Principal
2004 8% Senior Notes due 2014	\$ —	\$ 240,000,000	\$ (5,000,000)	\$ —	\$ 235,000,000	\$ 4,500,000
2003 3 ³ / ₄ % Convertible Senior Notes due 2010	132,000,000	—	—	—	132,000,000	—
2000 5 ³ / ₄ % Convertible Debentures due 2007	71,119,000	—	(4,000,000)	—	67,119,000	3,040,000
October 1999 12 ³ / ₄ % Senior Notes due 2009	115,680,000	—	(33,065,000)	—	82,615,000	34,973,250
January 1999 11 ¹ / ₄ % Senior Notes due 2009	109,897,000	—	(109,897,000)	—	—	116,078,706
1998 9 ⁷ / ₈ % Senior Notes due 2008	46,580,000	—	(46,580,000)	—	—	48,880,120
Total	\$ 475,276,000	\$ 240,000,000	\$ (198,542,000)	\$ —	\$ 516,734,000	\$ 207,472,076

For the year ended December 31, 2003

	Balance at December 31, 2002	Debt Issuance	Principal Purchases	Warrant Amortization and Write-off	Balance at December 31, 2003	Cash Paid for Purchase of Principal
2003 3 ³ / ₄ % Convertible Senior Notes due 2010	\$ —	\$ 132,000,000	\$ —	\$ —	\$ 132,000,000	\$ —
2000 5 ³ / ₄ % Convertible Debentures due 2007	71,119,000	—	—	—	71,119,000	—
October 1999 12 ³ / ₄ % Senior Notes due 2009	115,680,000	—	—	—	115,680,000	—
January 1999 11 ¹ / ₄ % Senior Notes due 2009	116,420,000	—	(6,523,000)	—	109,897,000	4,052,414
1998 9 ⁷ / ₈ % Senior Notes due 2008	50,220,000	—	(3,640,000)	—	46,580,000	2,261,350
1997 11 ³ / ₄ % Senior Notes due 2004	86,997,727	—	(87,220,000)	222,273	—	79,805,500
Total	\$ 440,436,727	\$ 132,000,000	\$ (97,383,000)	\$ 222,273	\$ 475,276,000	\$ 86,119,264

Capital Leases, Leased Fiber Capacity, Equipment Financing and Other Long-Term Obligations

During the three months ended September 30, 2001, the Company accepted delivery of fiber optic capacity on an indefeasible rights of use ("IRU") basis from Southern Cross Cables Limited ("SCCL"). The Company and SCCL entered into an arrangement financing the capacity purchase. During the three months ended December 31, 2001, the Company renegotiated the payment terms with SCCL. Under the new terms, the payments for each capacity segment will be made over a five-year term ending in April 2008, which added two years to the original three-year term. The effective interest rate on current borrowings is 7.2%. The Company further agreed to purchase \$12.2 million of additional fiber optic capacity from SCCL under the IRU agreement. The Company has fulfilled the total purchase obligation. At September 30, 2004 and December 31, 2003, the Company had a liability recorded under this agreement in the amount of \$18.1 million and \$18.6 million, respectively.

In December 2000, the Company entered into a financing arrangement to purchase fiber optic capacity on an IRU basis in Australia for \$35.2 million (51.1 million AUD) from Optus Networks Pty. Limited. As of December 31, 2001, the Company had fulfilled the total purchase obligation. The Company signed a promissory note payable over a four-year term ending in April 2005 bearing interest at a rate of 14.31%. During the three months ended June 30,

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2003, the Company renegotiated the payment terms extending the payment schedule through March 2007, and lowering the interest rate to 10.2%. At September 30, 2004 and December 31, 2003, the Company had a liability recorded in the amount of \$16.7 million (23.3 million AUD) and \$21.9 million (29.2 million AUD), respectively.

Other Long-Term Obligations

In May 2004, the Company's Australian subsidiary terminated a financing agreement, the ("Textron Agreement"), dated March 28, 2002, with Textron Financial Inc. ("Textron"), under which Textron agreed to finance eligible receivables from such subsidiary through March 31, 2005. Under the Textron Agreement, the subsidiary agreed to pay program fees based upon the Bloomberg BBSWIB rate plus 5.75% per annum (10.66% at December 31, 2003), plus an annual commitment fee of \$150,000. The finance commitment amount for the Textron Agreement was \$20.0 million. With respect to this financing agreement, the Company had no accounts receivable balances pledged with no liability recorded at September 30, 2004, and \$11.3 million pledged as collateral with a liability of \$0.3 million, as of December 31, 2003, which is included in current portion of long-term obligations as the financing was payable on demand.

In April 2004, Primus Canada entered into a loan agreement with The Manufacturers Life Insurance Company ("Manulife"). The agreement provides for a \$33.1 million (42 million CAD) two-year non-revolving term loan credit facility, bearing an interest rate of 7.75%. The agreement allows the proceeds to be used for general corporate purposes of the Company and is secured by the assets of Primus Canada's operations. As of September 30, 2004, the Company had no outstanding liability under this loan agreement. See Note 11 – Subsequent Events.

In September 2002, the Company signed an agreement to acquire the United States-based retail switched voice services customer base of Cable & Wireless ("C&W"). The Company started acquiring the customer base during the three months ended December 31, 2002, which resulted in a customer list balance acquired of \$15.4 million. In September 2004, the Company settled its outstanding payment obligation of \$6.1 million for \$5.0 million in cash. The Company had a liability of \$7.6 million payable at December 31, 2003.

6. OPERATING SEGMENT AND RELATED INFORMATION

The Company has three reportable operating segments based on management's organization of the enterprise into geographic areas – North America, Europe and Asia-Pacific. The Company evaluates the performance of its segments and allocates resources to them based upon, among other things, net revenue and income (loss) from operations. The accounting policies of the segments are the same as those described in the summary of significant accounting policies. Net revenue by reportable segment is reported on the basis of where services are provided. The Company has no single customer representing greater than 10% of its revenues. Operations and assets of the North America segment include shared corporate functions and assets.

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Summary information with respect to the Company's segments is as follows (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2004	2003	2004	2003
Net Revenue				
North America				
United States	\$ 60,012	\$ 73,309	\$ 190,813	\$ 214,121
Canada	59,452	57,551	179,163	152,715
Other	770	923	2,628	2,711
Total North America	120,234	131,783	372,604	369,547
Europe				
United Kingdom	65,512	40,217	176,021	107,117
Germany	12,483	12,528	37,198	40,814
Netherlands	18,986	31,518	59,818	116,074
Other	18,331	18,979	61,201	58,422
Total Europe	115,312	103,242	334,238	322,427
Asia-Pacific				
Australia	93,372	88,305	289,746	242,638
Other	5,406	4,935	17,374	14,336
Total Asia-Pacific	98,778	93,240	307,120	256,974
Total	\$ 334,324	\$ 328,265	\$ 1,013,962	\$ 948,948
Income (Loss) from Operations				
North America	\$ (7,003)	\$ 8,211	\$ (7,194)	\$ 12,102
Europe	5,738	4,097	15,889	6,856
Asia-Pacific	7,617	11,713	30,359	29,600
Total	\$ 6,352	\$ 24,021	\$ 39,054	\$ 48,558
		September 30, 2004	December 31, 2003	
Assets				
North America				
United States	\$ 163,034	\$ 190,527		
Canada	143,136	124,789		
Other	6,653	7,671		
Total North America	312,823	322,987		
Europe				
United Kingdom	80,269	80,243		
Germany	19,015	20,434		
Netherlands	17,382	15,387		
Other	44,447	57,138		
Total Europe	161,113	173,202		
Asia-Pacific				
Australia	235,920	229,765		
Other	25,294	25,210		
Total Asia-Pacific	261,214	254,975		
Total	\$ 735,150	\$ 751,164		

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The Company offers three main products – Voice, data/Internet, and voice-over-Internet protocol (VOIP). Summary net revenue information with respect to the Company's products is as follows (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2004	2003	2004	2003
Voice	\$ 269,806	\$ 278,476	\$ 827,706	\$ 803,572
Data/Internet	44,465	33,249	128,787	93,711
VOIP	20,053	16,540	57,469	51,665
Total	\$ 334,324	\$ 328,265	\$ 1,013,962	\$ 948,948

7. COMMITMENTS AND CONTINGENCIES

Future minimum lease payments under capital leases and leased fiber capacity financing ("vendor financing"), purchase obligations and non-cancelable operating leases as of September 30, 2004 are as follows (in thousands):

Year Ending December 31,	Vendor Financing	Purchase Obligations	Operating Leases
2004 (as of September 30, 2004)	\$ 4,485	\$ 599	\$ 3,476
2005	15,752	25,575	10,086
2006	14,260	8,100	7,123
2007	5,123	—	5,671
2008	1,775	—	3,468
Thereafter	237	—	2,286
Total Minimum Principal & Interest Payments	41,632	34,274	32,110
Less: Amount Representing Interest	(4,701)	—	—
	\$36,931	\$ 34,274	\$ 32,110

The Company has contractual obligations to utilize an external vendor for certain back-office support functions and to utilize network facilities from certain carriers with terms greater than one year. The Company does not purchase or commit to purchase quantities in excess of normal usage or amounts that cannot be used within the contract term or at rates below or above market value.

Rent expense under operating leases was \$5.4 million and \$4.5 million for the three months ended September 30, 2004 and 2003, respectively. Rent expense under operating leases was \$15.5 million and \$12.9 million for the nine months ended September 30, 2004 and 2003, respectively.

In March 1999, the Company purchased the common stock of London Telecom Network, Inc. and certain related entities that provide long distance telecommunications services in Canada (the "LTN Companies"). In April 2001, the LTN Companies received a federal notice and, in May 2002, a provincial notice of tax assessment disputing certain deductions from taxable income made by the LTN Companies, prior to the Company's acquisition, in the aggregate amount of \$6.0 million (8.0 million CAD), plus penalties and interest of \$12.6 million (16.7 million CAD). The Company had released the selling stockholders of the LTN Companies from their indemnification of the Company and recorded the liability. The Company disputed the charges and was successful in its arguments, and in August 2004, the Company was released from the tax assessment in its entirety and reported a \$9.2 million gain in interest and other income.

The purchase price for Telesonic Communications, Inc. ("TCI"), a Canadian prepaid card company, may increase based on additional consideration to be paid, as provided by the terms of the acquisition agreement, if the acquired company's adjusted revenues exceed certain targeted levels by May 2005.

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2004 Class Action Securities Litigation

Federal Securities Class Actions. Between August 17, 2004 and October 5, 2004, the Company and two of its executive officers (the “Primus Defendants”) were named as defendants in six class action lawsuits filed in the United States District Court for the Eastern District of Virginia, five of which were filed in the Alexandria Division (the “Alexandria Actions”) and one in the Richmond Division. The court has consolidated the Alexandria Actions under the caption “In re Primus Telecommunications Group, Incorporated Securities Litigation”, and a motion has been filed to consolidate the lawsuit filed in Richmond with the Alexandria Actions. Plaintiffs are suing on behalf of certain purchasers (the “Class”) of Primus securities between August 5, 2003 and July 29, 2004 (the “Class Period”). In one action, Fener, the Class Period begins on November 11, 2003. Plaintiffs allege that the Primus Defendants violated Sections 10(b) and 20(a) of the Exchange Act and Rule 10b-5. Plaintiffs seek damages, among other things, on the theory that the Primus Defendants fraudulently published false and misleading statements and/or fraudulently concealed adverse, non-public information about Primus, thereby artificially inflating the price of the Company’s securities. Motions have been filed by two groups to be appointed as lead plaintiff, and we anticipate that the Court will appoint a lead plaintiff by late November of 2004, and a consolidated amended complaint will be filed within 30 days thereafter. The Primus Defendants will have 30 days to either answer or file a motion to dismiss the consolidated amended complaint.

Shareholder Derivative Action. In September 2004, Richard J. Taddy filed a shareholder derivative action in the Alexandria Division of the United States District Court for the Eastern District of Virginia against members of Primus’ Board of Directors, a former director, a board observer and three of Primus’ executive officers (the “Primus Defendants”) on behalf of Primus for alleged violations of state law, including breach of fiduciary duty, abuse of control, gross mismanagement, waste of corporate assets and unjust enrichment. Damages are sought based on allegations that, between “November 2003 and the present,” the Primus Defendants (1) publicly issued false and misleading statements and concealed adverse, non-public information about Primus, (2) engaged in, or permitted, illegal insider trading, and (3) engaged in, or permitted, various acts of “gross mismanagement” and “corporate waste.” On November 1, 2004, the Primus Defendants filed a motion to dismiss the derivative action.

The Company intends to defend vigorously against the Federal Securities Class Actions and Shareholder Derivative Action and believes that the plaintiffs’ claims are without merit. However, the Company’s ultimate legal and financial liability with respect to these matters cannot be estimated with certainty at this time. The Primus Defendants have insurance coverage for these matters. Nonetheless, an adverse result in excess of amounts covered by insurance could have a material adverse effect on the Company’s consolidated financial position, results of operations and cash flows.

Other

Dismissal of Tutornet Litigation. The Company and certain of its executive officers had been defendants in two separate securities lawsuits brought by stockholders (“Plaintiffs”) of Tutornet.com, Inc. (“Tutornet”) in the United States District Courts in Virginia and New Jersey. Plaintiffs sued Tutornet and several of its officers (collectively, the “Non-Primus Defendants”) alleging fraud in the sale of Tutornet securities. Plaintiffs also named the Company and several of the Company’s executive officers (the “Primus Defendants”) as co-defendants. No officer of Primus had ever served as an officer or director of Tutornet or acquired any securities of Tutornet. Neither the Company nor any of the Company’s subsidiaries or affiliates own, or have ever owned, any securities of Tutornet.

In the Virginia case, the Primus Defendants were dismissed before the case went to the jury. The case continued against the Non-Primus Defendants, and the jury rendered a verdict in favor of Plaintiffs against the Non-Primus Defendants only. In May 2003, Plaintiffs filed an appeal in the 4th Circuit of the United States Court of Appeals (4th Circuit) regarding the Primus Defendants’ dismissal. On July 16, 2004, the three-judge panel of the 4th Circuit affirmed the district court’s decision. Plaintiffs did not file a petition for rehearing before the three-judge panel or rehearing before all the judges on the 4th Circuit within the required 14-day period, which period expired on July 30, 2004. On October 14, 2004, the time period available to plaintiffs to seek Supreme Court review lapsed. Accordingly, this matter has been finally determined.

The New Jersey case was filed on September 24, 2002 and included claims against the Primus Defendants. The Primus Defendants moved to dismiss, and the case was stayed pending further decision by the court in the Virginia case. After the April 2, 2003 decision in the Virginia case, the parties in the New Jersey case agreed to a dismissal without prejudice of the claims against the Primus Defendants, with dismissal subject to, and connected with, the appeal by the plaintiffs in the Virginia case. Plaintiffs have been notified of the 4th Circuit’s decision to affirm the district court decision in the Virginia case, and this matter has been finally determined.

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Telecommunications Dispute. On December 9, 1999, Empresa Hondurena de Telecomunicaciones, S.A. (“Plaintiff”), based in Honduras, filed suit in Florida State Court in Broward County against TresCom and one of TresCom’s wholly-owned subsidiaries, St. Thomas and San Juan Telephone Company, alleging that such entities failed to pay amounts due to Plaintiff pursuant to contracts for the exchange of telecommunications traffic during the period from December 1996 through September 1998. The Company acquired TresCom in June 1998, and TresCom is currently a subsidiary of the Company. Plaintiff is seeking approximately \$14 million in damages, plus legal fees and costs. The Company filed an answer on January 25, 2000, and discovery has commenced. The Company has recorded an accrual for the amounts that management estimates to be the probable loss. The Company’s legal and financial liability with respect to such legal proceeding would not be covered by insurance, and the Company’s ultimate liability, if any, cannot be estimated with certainty at this time. Accordingly, an adverse result for the full amount sought or some significant percentage thereof could have a material adverse effect on the Company’s financial results. The Company intends to defend the case vigorously. The Company believes that this suit will not have a material adverse effect on the Company’s consolidated financial position, results of operations and cash flows.

Do-Not-Call. In December 2003, Primus Telecommunication Inc. (“PTI”), the Company’s principal United States operating subsidiary, was served with notice that the Federal Communications Commission (FCC) was conducting an inquiry regarding 96 alleged telephone calls made on behalf of PTI to residential telephone lines that were either (1) included on the Do-Not-Call Registry or (2) to consumers who directly requested not to receive telemarketing calls from PTI. In September 2004, PTI settled this matter by entering into a Consent Decree with the FCC in which PTI paid the FCC \$400,000 and agreed to implement a more comprehensive compliance program in this regard.

The Company is subject to certain other claims and legal proceedings that arise in the ordinary course of its business activities. Each of these matters is subject to various uncertainties, and it is possible that some of these matters may be decided unfavorably to the Company. The Company believes that any aggregate liability that may ultimately result from the resolution of these other matters will not have a material adverse effect on the Company’s consolidated financial position and results of operations.

8. LOSS ON SALE OF FIXED ASSETS

The Company recorded a loss on sale of fixed assets of \$1.9 million and \$0.8 million for the nine months ended September 30, 2004 and 2003, respectively. The loss in 2004 was primarily the result of a sale of network equipment which was decommissioned when it was replaced by newer technology during the three months ended June 30, 2004. Payment was received in full during the three months ended September 30, 2004. The loss in 2003 was also the result of a sale of network equipment.

9. BASIC AND DILUTED INCOME (LOSS) PER COMMON SHARE

Basic income (loss) per common share is calculated by dividing income (loss) attributable to common stockholders by the weighted average common shares outstanding during the period.

Diluted income per common share adjusts basic income per common share for the effects of potentially dilutive common share equivalents. Potentially dilutive common shares include the dilutive effects of common shares issuable under the Company’s stock option compensation plans computed using the treasury stock method and the dilutive effects of shares issuable upon the conversion of its Series C convertible preferred stock (“Series C Preferred”) issued in December 2002 and March 2003, September 2003 Convertible Senior Notes and 2000 Convertible Subordinated Debentures and the warrants to purchase shares associated with the 1997 Senior Notes computed using the “if-converted” method. The Series C Preferred was converted into common stock on November 4, 2003. The warrants expired on August 1, 2004.

For the three and nine months ended September 30, 2004, the following could potentially dilute income per common share in the future but were excluded from the calculation of diluted income per common share due to their antidilutive effects:

- 2.0 million and 8.3 million shares, respectively, issuable under the Company’s stock option compensation plans, and
- 0 shares and 14.2 million shares, respectively, issuable upon conversion of the September 2003 Convertible Senior Notes, and
- 1.3 million shares issuable upon conversion of the 2000 Convertible Subordinated Debentures.

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For the three and nine months ended September 30, 2003, 0.2 million and 0.3 million shares respectively, issuable under the Company's stock option compensation plans and 1.4 million shares issuable from the 2000 Convertible Subordinated Debentures could potentially dilute income per common share in the future but were excluded from the calculation of diluted income per common share due to their antidilutive effects.

A reconciliation of basic income (loss) per common share to diluted income (loss) per common share is below (in thousands, except per share amounts):

	Three months ended September 30,		Nine months ended September 30,	
	2004	2003	2004	2003
Net income (loss)	\$ 16,153	\$ 5,835	\$ (8,788)	\$ 37,072
Accreted and deemed dividend on Series C Preferred	—	—	—	(1,678)
Income (loss) attributable to common stockholders - basic	\$ 16,153	\$ 5,835	\$ (8,788)	\$ 35,394
Adjustment for interest expense on 2003 Convertible Senior Notes	1,238	—	—	—
Adjustment for accreted and deemed dividend on Series C Preferred	—	—	—	1,678
Income (loss) attributable to common stockholders - diluted	\$ 17,391	\$ 5,835	\$ (8,788)	\$ 37,072
Weighted average common shares outstanding - basic	89,837	65,398	89,408	65,214
In-the-money options exercisable under stock option compensation plans	1,544	3,748	—	2,960
Series C Preferred	—	22,617	—	21,022
2003 Convertible Senior Notes	14,158	—	—	830
Weighted average common shares outstanding - diluted	105,539	91,763	89,408	90,026
Income (loss) per common share:				
Basic	\$ 0.18	\$ 0.09	\$ (0.10)	\$ 0.54
Diluted	\$ 0.16	\$ 0.06	\$ (0.10)	\$ 0.41

10. GUARANTOR/NON-GUARANTOR CONSOLIDATING CONDENSED FINANCIAL INFORMATION

PTHI's 2004 Senior Notes are fully and unconditionally guaranteed by Primus Telecommunications Group, Incorporated ("PTGI") on a senior basis as of September 30, 2004. Accordingly, the following condensed consolidating financial information as of September 30, 2004 and December 31, 2003 and for the three-month and nine-month periods ended September 30, 2004 and September 30, 2003, are included for (a) PTGI on a stand-alone basis; (b) PTHI and its subsidiaries; and (c) PTGI on a consolidated basis. PTHI was established on October 29, 2003 and was inactive until 2004. For comparative purposes for the 2003 periods presented, the PTHI column represents the consolidated subsidiaries that were contributed to PTHI during the capital restructuring in 2004.

Investments in subsidiaries are accounted for using the equity method for purposes of the consolidating presentation. The principal elimination entries eliminate investments in subsidiaries, intercompany balances and intercompany transactions.

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED
CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS
(in thousands)

For the Three Months Ended September 30, 2004

	PTGI	PTHI	Eliminations	Consolidated
NET REVENUE	\$ —	\$ 334,324	\$ —	\$ 334,324
OPERATING EXPENSES				
Cost of revenue (exclusive of depreciation included below)	—	204,781	—	204,781
Selling, general and administrative	1,795	98,643	—	100,438
Depreciation and amortization	—	22,730	—	22,730
Loss on sale of fixed assets	—	23	—	23
Total operating expenses	1,795	326,177	—	327,972
INCOME (LOSS) FROM OPERATIONS	(1,795)	8,147	—	6,352
INTEREST EXPENSE	(5,266)	(5,940)	—	(11,206)
GAIN ON EARLY EXTINGUISHMENT OF DEBT	1,800	1,114	—	2,914
INTEREST AND OTHER INCOME	15	9,849	—	9,864
FOREIGN CURRENCY TRANSACTION GAIN (LOSS)	(1,716)	11,410	—	9,694
INTERCOMPANY INTEREST	247	(247)	—	—
EQUITY IN NET INCOME OF SUBSIDIARIES	23,928	—	(23,928)	—
INCOME BEFORE INCOME TAXES	17,213	24,333	(23,928)	17,618
INCOME TAX EXPENSE	(1,060)	(405)	—	(1,465)
NET INCOME	\$ 16,153	\$ 23,928	\$ (23,928)	\$ 16,153

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED
CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS
(in thousands)

For the Three Months Ended September 30, 2003

	<u>PTGI</u>	<u>PTHI</u>	<u>Eliminations</u>	<u>Consolidated</u>
NET REVENUE	\$ —	\$ 328,265	\$ —	\$ 328,265
OPERATING EXPENSES				
Cost of revenue (exclusive of depreciation included below)	—	195,804	—	195,804
Selling, general and administrative	1,272	86,008	—	87,280
Depreciation and amortization	—	21,160	—	21,160
Total operating expenses	<u>1,272</u>	<u>302,972</u>	<u>—</u>	<u>304,244</u>
INCOME (LOSS) FROM OPERATIONS	(1,272)	25,293	—	24,021
INTEREST EXPENSE	(10,436)	(6,256)	—	(16,692)
GAIN (LOSS) ON EARLY EXTINGUISHMENT OF DEBT	(1,589)	207	—	(1,382)
INTEREST AND OTHER INCOME	13	172	—	185
FOREIGN CURRENCY TRANSACTION GAIN	416	15	—	431
INTERCOMPANY INTEREST	501	(501)	—	—
EQUITY IN NET INCOME OF SUBSIDIARIES	<u>18,293</u>	<u>—</u>	<u>(18,293)</u>	<u>—</u>
INCOME BEFORE INCOME TAXES	5,926	18,930	(18,293)	6,563
INCOME TAX EXPENSE	(91)	(637)	—	(728)
NET INCOME	<u>5,835</u>	<u>18,293</u>	<u>(18,293)</u>	<u>5,835</u>
ACCRETED AND DEEMED DIVIDEND ON CONVERTIBLE PREFERRED STOCK	—	—	—	—
INCOME ATTRIBUTABLE TO COMMON STOCKHOLDERS	<u>\$ 5,835</u>	<u>\$ 18,293</u>	<u>\$ (18,293)</u>	<u>\$ 5,835</u>

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED
CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS
(in thousands)

For the Nine Months Ended September 30, 2004

	<u>PTGI</u>	<u>PTHI</u>	<u>Eliminations</u>	<u>Consolidated</u>
NET REVENUE	\$ —	\$1,013,962	\$ —	\$1,013,962
OPERATING EXPENSES				
Cost of revenue (exclusive of depreciation included below)	—	613,473	—	613,473
Selling, general and administrative	4,305	285,857	—	290,162
Depreciation and amortization	—	69,377	—	69,377
Loss on sale of fixed assets	—	1,896	—	1,896
Total operating expenses	<u>4,305</u>	<u>970,603</u>	<u>—</u>	<u>974,908</u>
INCOME (LOSS) FROM OPERATIONS	(4,305)	43,359	—	39,054
INTEREST EXPENSE	(18,912)	(18,952)	—	(37,864)
GAIN (LOSS) ON EARLY EXTINGUISHMENT OF DEBT	(11,958)	976	—	(10,982)
INTEREST AND OTHER INCOME	172	10,980	—	11,152
FOREIGN CURRENCY TRANSACTION LOSS	(1,619)	(4,484)	—	(6,103)
INTERCOMPANY INTEREST	581	(581)	—	—
EQUITY IN NET INCOME OF SUBSIDIARIES	<u>28,313</u>	<u>—</u>	<u>(28,313)</u>	<u>—</u>
INCOME (LOSS) BEFORE INCOME TAXES	(7,728)	31,298	(28,313)	(4,743)
INCOME TAX EXPENSE	<u>(1,060)</u>	<u>(2,985)</u>	<u>—</u>	<u>(4,045)</u>
NET INCOME (LOSS)	<u>\$ (8,788)</u>	<u>\$ 28,313</u>	<u>\$ (28,313)</u>	<u>\$ (8,788)</u>

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED
CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS
(in thousands)

For the Nine Months Ended September 30, 2003

	<u>PTGI</u>	<u>PTHI</u>	<u>Eliminations</u>	<u>Consolidated</u>
NET REVENUE	\$ —	\$948,948	\$ —	\$ 948,948
OPERATING EXPENSES				
Cost of revenue (exclusive of depreciation included below)	—	582,190	—	582,190
Selling, general and administrative	3,052	251,094	—	254,146
Depreciation and amortization	—	62,713	—	62,713
Loss on sale of fixed assets	—	804	—	804
Asset impairment write-down	—	537	—	537
Total operating expenses	<u>3,052</u>	<u>897,338</u>	<u>—</u>	<u>900,390</u>
INCOME (LOSS) FROM OPERATIONS	(3,052)	51,610	—	48,558
INTEREST EXPENSE	(32,904)	(13,787)	—	(46,691)
GAIN ON EARLY EXTINGUISHMENT OF DEBT	8,703	4,549	—	13,252
INTEREST AND OTHER INCOME	53	332	—	385
FOREIGN CURRENCY TRANSACTION GAIN	4,527	20,722	—	25,249
INTERCOMPANY INTEREST	2,360	(2,360)	—	—
EQUITY IN NET INCOME OF SUBSIDIARIES	<u>57,657</u>	<u>—</u>	<u>(57,657)</u>	<u>—</u>
INCOME BEFORE INCOME TAXES	37,344	61,066	(57,657)	40,753
INCOME TAX EXPENSE	<u>(272)</u>	<u>(3,409)</u>	<u>—</u>	<u>(3,681)</u>
NET INCOME	37,072	57,657	(57,657)	37,072
ACCREDITED AND DEEMED DIVIDEND ON CONVERTIBLE PREFERRED STOCK	<u>(1,678)</u>	<u>—</u>	<u>—</u>	<u>(1,678)</u>
INCOME ATTRIBUTABLE TO COMMON STOCKHOLDERS	<u>\$ 35,394</u>	<u>\$ 57,657</u>	<u>\$ (57,657)</u>	<u>\$ 35,394</u>

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED
CONSOLIDATING CONDENSED BALANCE SHEET
(in thousands)

September 30, 2004

	PTGI	PTHI	Eliminations	Consolidated
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	\$ 3,677	\$ 49,264	\$ —	\$ 52,941
Accounts receivable	—	182,430	—	182,430
Prepaid expenses and other current assets	345	42,411	—	42,756
Total current assets	4,022	274,105	—	278,127
INTERCOMPANY RECEIVABLES	—	167,632	(167,632)	—
INVESTMENTS IN SUBSIDIARIES	413,251	—	(413,251)	—
RESTRICTED CASH	—	16,552	—	16,552
PROPERTY AND EQUIPMENT - Net	—	313,333	—	313,333
GOODWILL	—	77,422	—	77,422
OTHER INTANGIBLE ASSETS - Net	—	31,482	—	31,482
OTHER ASSETS	6,497	11,737	—	18,234
TOTAL ASSETS	\$ 423,770	\$ 892,263	\$ (580,883)	\$ 735,150
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)				
CURRENT LIABILITIES:				
Accounts payable	\$ 468	\$ 117,193	\$ —	\$ 117,661
Accrued interconnection costs	—	77,522	—	77,522
Accrued expenses and other current liabilities	904	63,466	—	64,370
Accrued income taxes	2,032	14,278	—	16,310
Accrued interest	5,570	4,306	—	9,876
Current portion of long-term obligations	—	15,384	—	15,384
Total current liabilities	8,974	292,149	—	301,123
INTERCOMPANY PAYABLES	167,632	—	(167,632)	—
LONG-TERM OBLIGATIONS	281,734	263,797	—	545,531
OTHER LIABILITIES	—	1,437	—	1,437
Total liabilities	458,340	557,383	(167,632)	848,091
COMMITMENTS AND CONTINGENCIES				
STOCKHOLDERS' EQUITY (DEFICIT):				
Common stock	898	—	—	898
Additional paid-in capital	658,397	1,161,937	(1,161,937)	658,397
Accumulated deficit	(693,865)	(748,686)	748,686	(693,865)
Accumulated other comprehensive loss	—	(78,371)	—	(78,371)
Total stockholders' equity (deficit)	(34,570)	334,880	(413,251)	(112,941)
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	\$ 423,770	\$ 892,263	\$ (580,883)	\$ 735,150

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED
CONSOLIDATING BALANCE SHEET
(in thousands)

	December 31, 2003			
	PTGI	PTHI	Eliminations	Consolidated
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	\$ 1,786	\$ 62,280	\$ —	\$ 64,066
Accounts receivable	—	200,817	—	200,817
Prepaid expenses and other current assets	1,411	35,519	—	36,930
Total current assets	3,197	298,616	—	301,813
INTERCOMPANY RECEIVABLES	916,214	—	(916,214)	—
INVESTMENTS IN SUBSIDIARIES	(471,147)	—	471,147	—
RESTRICTED CASH	—	12,463	—	12,463
PROPERTY AND EQUIPMENT - Net	—	341,167	—	341,167
GOODWILL	—	59,895	—	59,895
OTHER INTANGIBLE ASSETS - Net	—	22,711	—	22,711
OTHER ASSETS	10,033	3,082	—	13,115
TOTAL ASSETS	\$ 458,297	\$ 737,934	\$(445,067)	\$ 751,164
LIABILITIES AND STOCKHOLDERS' DEFICIT				
CURRENT LIABILITIES:				
Accounts payable	\$ 1,247	\$ 107,368	\$ —	\$ 108,615
Accrued interconnection costs	—	89,993	—	89,993
Accrued expenses and other current liabilities	463	68,993	—	69,456
Accrued income taxes	1,966	20,421	—	22,387
Accrued interest	12,363	489	—	12,852
Current portion of long-term obligations	—	24,385	—	24,385
Total current liabilities	16,039	311,649	—	327,688
INTERCOMPANY PAYABLES	—	916,214	(916,214)	—
LONG-TERM OBLIGATIONS	475,291	42,775	—	518,066
OTHER LIABILITIES	—	1,776	—	1,776
Total liabilities	491,330	1,272,414	(916,214)	847,530
COMMITMENTS AND CONTINGENCIES				
STOCKHOLDERS' DEFICIT:				
Common stock	885	—	—	885
Additional paid-in capital	651,159	305,852	(305,852)	651,159
Accumulated deficit	(685,077)	(776,999)	776,999	(685,077)
Accumulated other comprehensive loss	—	(63,333)	—	(63,333)
Total stockholders' deficit	(33,033)	(534,480)	471,147	(96,366)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	\$ 458,297	\$ 737,934	\$(445,067)	\$ 751,164

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED
CONSOLIDATING CONDENSED STATEMENT OF CASH FLOWS
(in thousands)

For the Nine Months Ended September 30, 2004

	PTGI	PTHI	Eliminations	Consolidated
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net income (loss)	\$ (8,788)	\$ 28,313	\$ (28,313)	\$ (8,788)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:				
Provision for doubtful accounts receivable	—	12,773	—	12,773
Depreciation and amortization	—	69,377	—	69,377
Loss on sale of fixed assets	—	1,896	—	1,896
Equity in net income of subsidiary	(28,313)	—	28,313	—
Equity investment gain	—	(81)	—	(81)
(Gain) loss on early extinguishment of debt	11,958	(976)	—	10,982
Minority interest share of loss	—	(335)	—	(335)
Unrealized foreign currency transaction loss on intercompany and foreign debt	2,284	1,747	—	4,031
Changes in assets and liabilities, net of acquisitions:				
Decrease in accounts receivable	—	3,809	—	3,809
(Increase) decrease in prepaid expenses and other current assets	1,066	(5,071)	—	(4,005)
Increase in restricted cash	—	(4,444)	—	(4,444)
(Increase) decrease in other assets	995	(2,326)	—	(1,331)
(Increase) decrease in intercompany balance	231,548	(231,548)	—	—
Increase (decrease) in accounts payable	(780)	9,081	—	8,301
Increase (decrease) in accrued expenses, other current liabilities, accrued income taxes and other liabilities	507	(38,189)	—	(37,682)
Increase (decrease) in accrued interest	(6,793)	3,829	—	(2,964)
Net cash provided by (used in) operating activities	203,684	(152,145)	—	51,539
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchase of property and equipment	—	(26,257)	—	(26,257)
Cash used for business acquisitions, net of cash acquired	—	(28,196)	—	(28,196)
Net cash used in investing activities	—	(54,453)	—	(54,453)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Proceeds from issuance of long-term obligations, net	—	235,240	—	235,240
Purchase of the Company's debt securities	(202,972)	(4,500)	—	(207,472)
Principal payments on capital leases, vendor financing and other long-term obligations	—	(30,586)	—	(30,586)
Proceeds from sale of common stock	1,179	—	—	1,179
Net cash (used in) provided by financing activities	(201,793)	200,154	—	(1,639)
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	—	(6,572)	—	(6,572)
NET CHANGE IN CASH AND CASH EQUIVALENTS	1,891	(13,016)	—	(11,125)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	1,786	62,280	—	64,066
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 3,677	\$ 49,264	\$ —	\$ 52,941

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED
CONSOLIDATING CONDENSED STATEMENT OF CASH FLOWS
(in thousands)

For the Nine Months Ended September 30, 2003

	PTGI	PTHI	Eliminations	Consolidated
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net income	\$ 37,072	\$ 57,657	\$ (57,657)	\$ 37,072
Adjustments to reconcile net income (loss) to net cash provided by operating activities:				
Provision for doubtful accounts receivable	—	17,377	—	17,377
Stock issuance - 401(k) Plan and Restricted Stock Plan	—	258	—	258
Non-cash compensation expense	—	245	—	245
Depreciation, amortization and accretion	—	62,763	—	62,763
Loss on sale of fixed assets	—	804	—	804
Asset impairment write-down	—	537	—	537
Equity in net income of subsidiary	(57,657)	—	57,657	—
Equity investment loss	—	688	—	688
Gain on early extinguishment of debt	(8,703)	(4,549)	—	(13,252)
Minority interest share of loss	—	(311)	—	(311)
Unrealized foreign currency transaction gain on intercompany and foreign debt	(11,269)	(16,163)	—	(27,432)
Changes in assets and liabilities, net of acquisitions:				
Increase in accounts receivable	—	(25,147)	—	(25,147)
Decrease in prepaid expenses and other current assets	1,084	8,159	—	9,243
Decrease in restricted cash	—	641	—	641
Decrease in other assets	1,224	1,365	—	2,589
(Increase) decrease in intercompany balance	79,650	(79,650)	—	—
Increase (decrease) in accounts payable	617	(10,937)	—	(10,320)
Increase (decrease) in accrued expenses, other current liabilities, accrued income taxes and other liabilities	1,309	(4,485)	—	(3,176)
Decrease in accrued interest	(3,040)	(1)	—	(3,041)
Net cash provided by operating activities	40,287	9,251	—	49,538
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchase of property and equipment	—	(14,372)	—	(14,372)
Cash used for business acquisitions, net of cash acquired	—	(965)	—	(965)
Net cash used in investing activities	—	(15,337)	—	(15,337)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Proceeds from issuance of long-term obligations, net	126,800	9,125	—	135,925
Purchase of the Company's debt securities	(52,549)	—	—	(52,549)
Principal payments on capital leases, vendor financing and other long-term obligations	(124,106)	25,635	—	(98,471)
Proceeds from sale of convertible preferred stock, net	8,895	—	—	8,895
Proceeds from sale of common stock	655	—	—	655
Net cash (used in) provided by financing activities	(40,305)	34,760	—	(5,545)
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	—	1,603	—	1,603
NET CHANGE IN CASH AND CASH EQUIVALENTS	(18)	30,277	—	30,259
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	590	91,902	—	92,492
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 572	\$122,179	\$ —	\$ 122,751

11. SUBSEQUENT EVENTS

In October 2004, Primus Canada signed an amendment to the April 2004 loan agreement with Manulife that extended the maturity date one year to April 2007. The agreement is now a three-year non-revolving term loan credit facility bearing an interest rate of 7.75%. The agreement allows the proceeds to be used for general corporate purposes of the Company and is secured by the assets of Primus Canada's operations. As of October 31, 2004, the Company had no outstanding liability under this loan agreement.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Introduction

We are an integrated telecommunications services provider offering a portfolio of international and domestic voice, cellular, Internet, voice-over-Internet protocol (VOIP), data and hosting services to business and residential retail customers and other carriers located primarily in the United States, Australia, Canada, the United Kingdom and Europe. Our focus is to service the demand for high quality, competitively priced international communications services that is being driven by the globalization of the world's economies, the worldwide trend toward telecommunications deregulation and the growth of Internet, VOIP, cellular and data traffic.

Recent Product Initiatives Overview

We have selectively targeted opportunities for us to participate in major growth areas for telecommunications—local, cellular and broadband. Our approach in these areas has common elements: focus on bundling services to end-user customers with international calling patterns; leverage our existing global voice, data and Internet network; and utilize our established distribution channels and back-office systems. The three months ended September 30, 2004 were highlighted by the accelerated implementation of our new strategic initiatives.

We believe the local services market is a major opportunity for revenue growth for us. We recently began offering local line service and cellular services in Canada on a resale basis. We plan to bundle these services with our other product offerings of long distance and Internet access, in competition with the incumbent local exchange carriers (ILECs). We are currently a local resale service provider in Australia, bundling the product with long distance, dial-up Internet access and broadband digital subscriber line (DSL) services. The ability to bundle local service for our existing customer base and attract new customers to our existing services presents future growth opportunities for us.

Our cellular initiative will target as potential new customers all cellular users in our existing major markets—Europe, United States, Canada, and Australia—who wish to make international calls using their mobile phones. Currently, many cellular users are blocked by their service provider from making international calls, and those that can make international calls are charged excessively high rates. Through a combination of reseller service initiatives, including “dial-around” services, prepaid services, special PIN (personal identification number) services, and PRIMUS-branded “intelligent” handsets, we have targeted the users of cellular carriers and offer substantially reduced international rates. Even with reduced rates, we believe our services have the potential to generate substantial margins. The cellular customer would not be required to change their underlying cellular service provider—what we offer is a value-added service that will provide a customer substantial cost savings on international calls, although we do also offer Primus-branded cellular services on a resale basis. The current high rates for international calls from cellular phones have artificially suppressed this potentially large market; we intend to make international calling easy and affordable for cellular users.

The target customers for our broadband VOIP products will ultimately be anyone who has a broadband connection anywhere in the world. We have been in the carrier VOIP market now for several years and carried over one billion minutes of international voice traffic in 2003 over the public Internet. Starting in 2004, we have introduced retail VOIP products in Canada, Australia, and the United States. In June 2004, we launched our Lingo product, which has since been enhanced to offer unlimited calling plans including destinations in western Europe and certain countries in Asia, unlimited calling between two Lingo subscribers and universal international numbers. In February 2004, Australia added Voice over DSL to our list of products and services. We will leverage our already deployed VOIP network connecting approximately 150 countries and supported by state-of-the-art technology.

We anticipate that these three additional product lines—local, cellular and broadband—have the potential to become as large as our existing wireline products and drive future growth in our revenues.

Recent Competitive Developments; Acceleration of Our Integrated Product Response

Our operating results in the third quarter 2004 reflect increased competition from product bundling in virtually all of our markets, together with continued competitive pricing pressures. In addition, wireline long distance usage continued to decline due to increased use of cellular phones and Internet services. Our revenue growth and profitability have been strongly challenged by a changing industry environment throughout the first three quarters of this year. During the first quarter 2004 we experienced pricing pressure on our core long distance services and reduced margins on our resale of DSL in Australia and heavy churn in our products in dial-up Internet service provider

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(ISP) products in Australia. In the second and third quarters, this competitive challenge became more intense when major incumbent carriers in many of our markets reduced pricing on long distance offerings to encourage customers to subscribe to their bundled local, cellular and broadband services.

Our response to this new competitive reality has been to take immediate steps to accelerate our transformation from being a long distance voice and dial-up ISP carrier into an integrated wireline, cellular and broadband services provider. This was a transformation we believe we had to make over time to remain competitive, and it was the basis for our new strategic initiatives in local, cellular and broadband VOIP services. Although the aggregate revenues are still modest in comparison to last year's \$1.3 billion revenue base, revenues from these initiatives have increased 36% during the three months ended September 30, 2004 from the three months ended June 30, 2004. Given these early results and the ongoing competitive pressures in the marketplace, we have revised our prior plans for a measured roll-out of our new products and services and have been accelerating the implementation of these initiatives throughout the second half of the year, including a DSL network build-out in Australia. These efforts will enhance our bundled service capabilities, and as a result, we believe those efforts should reduce the competitive vulnerability of our core, high margin, retail long distance and ISP businesses. They will also provide us with long-term growth potential in local, cellular and broadband markets where we have previously not been a significant provider.

Overview of Historic Global Operations

Generally, we price our services competitively with the major carriers operating in our principal service regions. We expect to continue to generate net revenue from internal growth through sales and marketing efforts focused on customers with significant communications needs (international and domestic voice, cellular, VOIP, Internet and data), including small- and medium-sized enterprises (SMEs), multinational corporations, residential customers, particularly ethnic customers, and other telecommunications carriers and resellers, as well as from acquisitions.

Prices in the long distance industry have declined in recent years, and as competition continues to increase in each of the service segments and each of the product lines, we believe that prices are likely to continue to decrease. Long distance minutes of use per customer also continues to decline as more customers are using cellular phones and the Internet as alternatives to the use of wireline phones. Additionally, we believe that because deregulatory influences have begun to affect telecommunications markets outside the United States, the deregulatory trend will result in greater competition from the existing wireline and wireless competitors and from new entrants, such as cable companies and VOIP companies, which could continue to adversely affect our net revenue per minute.

As the portion of traffic transmitted over leased or owned facilities increases, cost of revenue increasingly is comprised of fixed costs. In order to manage such costs, we pursue a flexible approach with respect to the expansion of our network capacity. In most instances, we initially obtain transmission capacity on a variable-cost, per-minute leased basis, then acquire additional capacity on a fixed-cost basis when traffic volume makes such a commitment cost-effective, and ultimately purchase and operate our own facilities when traffic levels justify such investment. We also seek to lower the cost of revenue through:

- optimizing the cost of traffic by using the least expensive cost routing;
- negotiating lower variable usage based costs with domestic and foreign service providers and negotiating additional and lower cost foreign carrier agreements with the foreign incumbent carriers and others;
- continuing to expand the capacity of our network when traffic volumes justify such investment; and
- increasing use of the public Internet.

In most countries, we generally realize a higher margin on our international long distance as compared to our domestic long distance services and a higher margin on our services to both business and residential customers compared to those realized on our services to other telecommunications carriers. At the current time, we generally realize a higher margin on long distance services as compared to those realized on local switched and cellular services, many of which are resold. We also generally realize a higher margin on our Internet access, data services, and retail broadband VOIP services as compared to voice services. Carrier services over a fixed line network, which generate a lower margin than retail business and residential services, are an important part of net revenue because the additional traffic volume of such carrier customers improves the utilization of the network and allows us to obtain greater volume discounts from our suppliers than we otherwise would realize. Also, carrier services over Internet protocol (IP) have higher margins than carrier services over a fixed line network. Overall carrier revenue accounted for 19% of total

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revenue for the three and nine month periods ended September 30, 2004 and 18% and 20% of the total revenue for the three and nine month periods ended September 30, 2003, respectively. The provision of carrier services also allows us to connect our network to all major carriers, which enables us to provide global coverage. Our overall margin may fluctuate based on the relative volumes of international versus domestic long distance services, carrier services versus business and residential long distance services, Internet, VOIP and data services versus voice services, the amount of services that are resold and the proportion of traffic carried on our network versus resale of other carriers' services.

Selling, general and administrative expenses are comprised primarily of salaries and benefits, commissions, occupancy costs, sales and marketing expenses, advertising, professional fees, and administrative costs. All selling, general and administrative expenses are expensed when incurred, with the exception of direct-response advertising, which is expensed in accordance with Statement of Position 93-7, "Reporting on Advertising Costs." To further deploy and to promote our new initiatives and to defend our existing core business against increased competitive threats, we expect our sales and marketing expenses to increase as a percentage of net revenue in the near term as we do not anticipate any meaningful revenue contributions from the new initiatives until the latter half of 2005.

Our debt reduction and refinancing efforts have resulted in a trend of decreasing interest expense since such efforts began in December 2000. We will continue to reduce debt through regularly scheduled principal payments as well as other available means. We will also continue to seek opportunities to secure more favorable financing terms that will enhance liquidity by either extending the principal payment schedule or reducing interest rates.

Foreign currency can have a major impact on our financial results. Currently in excess of 75% of our net revenue is derived from sales and operations outside the United States. The reporting currency for our consolidated financial statements is the United States dollar (USD). The local currency of each country is the functional currency for each of our respective entities operating in that country. In the future, we expect to continue to derive the majority of our net revenue and incur a significant portion of our operating costs from outside the United States, and therefore changes in exchange rates have had and may continue to have a significant, and potentially adverse, effect on our results of operations. Our primary risk of loss regarding foreign currency exchange rate risk is caused primarily by fluctuations in the following exchange rates: USD/Australian dollar (AUD), USD/Canadian dollar (CAD), USD/Great Britain pound (GBP), and USD/Euro dollar (EUR). Due to the large percentage of our revenue derived outside of the United States, strengthening of the USD relative to one or more of the foregoing currencies, could have an adverse impact on our future results of operations. We have agreements with certain subsidiaries for repayment of a portion of the investments and advances made to these subsidiaries. As we anticipate repayment in the foreseeable future, we recognize the unrealized gains and losses in foreign currency transaction gain (loss) on the consolidated statements of operations. We historically have not engaged in hedging transactions. However, the exposure of our income from operations to fluctuations in foreign currency exchange rates is reduced in part because a majority of the costs that we incur in connection with our foreign operations are also denominated in local currencies.

We are exposed to financial statement gains and losses as a result of translating the operating results and financial position of our international subsidiaries. We translate the local currency statements of operations of our foreign subsidiaries into USD using the average exchange rate during the reporting period. Changes in foreign exchange rates affect the reported profits and losses and cash flows and may distort comparisons from year to year. By way of example, when the USD strengthens compared to the EUR, there is a negative effect on the reported results for Europe and takes more profits in EUR to generate the same amount of profits in USD. The opposite is also true. That is, when the USD weakens there is a positive effect on reported results for Europe.

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In the three months and nine months ended September 30, 2004, as compared to the three months and nine months ended September 30, 2003, the USD was weaker on average as compared to the CAD, AUD, GBP and EUR. The following tables demonstrate the impact of currency fluctuations on our net revenue for the three-month and nine-month periods ended September 30, 2004 and 2003 (in thousands, except percentages):

Net Revenue by Location - in USD

	For the three months ended September 30,				For the nine months ended September 30,			
	2004	2003	Variance	Variance %	2004	2003	Variance	Variance %
Canada	59,452	57,551	1,901	3%	179,163	152,715	26,448	17%
Australia	93,372	88,305	5,067	6%	289,746	242,638	47,108	19%
United Kingdom ⁽¹⁾	65,511	40,217	25,294	63%	176,021	107,117	68,904	64%
Europe ⁽¹⁾⁽²⁾	46,141	58,115	(11,974)	(21)%	146,270	200,140	(53,870)	(27)%

Net Revenue by Location - in Local Currencies

	For the three months ended September 30,				For the nine months ended September 30,			
	2004	2003	Variance	Variance %	2004	2003	Variance	Variance %
Canada (in CAD)	77,819	79,409	(1,590)	(2)%	237,984	217,266	20,718	10%
Australia (in AUD)	131,669	134,158	(2,489)	(2)%	397,092	384,271	12,821	3%
United Kingdom (in GBP) ⁽¹⁾	36,035	25,032	11,003	44%	96,758	66,683	30,075	45%
Europe (in EUR) ⁽¹⁾⁽²⁾	37,756	51,588	(13,832)	(27)%	119,367	180,028	(60,661)	(34)%

⁽¹⁾ Primary reason for increased revenue in United Kingdom and offsetting decrease in Europe is due to transition of a business unit from the Netherlands to the United Kingdom.

⁽²⁾ Includes operations with a functional currency of EUR.

Critical Accounting Policies

See "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Form 10-K for the year ended December 31, 2003 for a detailed discussion of our critical accounting policies. These policies include revenue recognition, determining our allowance for doubtful accounts receivable, accounting for cost of revenue and valuation of long-lived assets. No significant changes in our critical accounting policies have occurred since December 31, 2003.

Results of Operations

The following information for the three and nine months ended September 30, 2004 and 2003 (in thousands and unaudited) is provided for informational purposes and should be read in conjunction with the unaudited Consolidated Condensed Financial Statements and Notes thereto contained elsewhere herein and the Consolidated Financial Statements presented with our most recently filed Form 10-K/A.

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Three months ended September 30, 2004

	Net Revenue	%	Minutes of Use		
			International	Domestic	Total
North America	\$ 120,234	36%	544,407	776,113	1,320,520
Europe	115,312	34%	679,338	183,599	862,937
Asia-Pacific	98,778	30%	40,596	207,545	248,141
Total	\$ 334,324	100%	1,264,341	1,167,257	2,431,598

Three months ended September 30, 2003

	Net Revenue	%	Minutes of Use		
			International	Domestic	Total
North America	\$ 131,783	41%	545,391	838,568	1,383,959
Europe	103,242	31%	678,734	206,523	885,257
Asia-Pacific	93,240	28%	45,978	219,706	265,684
Total	\$ 328,265	100%	1,270,103	1,264,797	2,534,900

Nine months ended September 30, 2004

	Net Revenue	%	Minutes of Use		
			International	Domestic	Total
North America	\$ 372,604	37%	1,718,287	2,426,301	4,144,588
Europe	334,238	33%	1,945,705	580,999	2,526,704
Asia-Pacific	307,120	30%	125,429	629,971	755,400
Total	\$1,013,962	100%	3,789,421	3,637,271	7,426,692

Nine months ended September 30, 2003

	Net Revenue	%	Minutes of Use		
			International	Domestic	Total
North America	\$ 369,547	39%	1,440,011	2,512,424	3,952,435
Europe	322,427	34%	2,154,379	704,885	2,859,264
Asia-Pacific	256,974	27%	137,393	616,934	754,327
Total	\$ 948,948	100%	3,731,783	3,834,243	7,566,026

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Minutes of use do not reflect services which are not charged on a per minute basis, such as fixed charge Internet access services. The following information reflects net revenue by product line for the three and nine months ended September 30, 2004 and 2003, respectively (in thousands, except percentages), and is provided for informational purposes and should be read in conjunction with the Consolidated Condensed Financial Statements and Notes:

	Three months ended September 30, 2004		Three months ended September 30, 2003		Nine months ended September 30, 2004		Nine months ended September 30, 2003	
Voice	269,806	81%	278,476	85%	827,706	81%	803,572	85%
Data and Internet	44,465	13%	33,249	10%	128,787	13%	93,711	10%
VOIP	20,053	6%	16,540	5%	57,469	6%	51,665	5%
Total	334,324	100%	328,265	100%	1,013,962	100%	948,948	100%

Results of operations for the three months ended September 30, 2004 as compared to the three months ended September 30, 2003

Net revenue increased \$6.0 million or 2% to \$334.3 million for the three months ended September 30, 2004 from \$328.3 million for the three months ended September 30, 2003.

North America: North American net revenue decreased \$11.5 million or 9% to \$120.2 million for the three months ended September 30, 2004 from \$131.8 million for the three months ended September 30, 2003. The decrease is primarily attributed to a decrease of \$11.7 million in retail voice services, a decrease of \$5.3 million in the usage of prepaid calling cards in Canada and the United States, partially offset by an increase of \$4.8 million in Internet services in Canada (primarily due to the April 2004 acquisition of Magma), and an increase of \$1.6 million in United States carrier services. Also, offsetting the decrease in North America was the impact of foreign currency rates which had a positive impact of \$3.1 million due to the strengthening of the CAD against the USD when comparing the exchange rates for the three months ended September 30, 2004 to the three months ended September 30, 2003.

Revenue by Country	For the three months ended September 30, 2004		For the three months ended September 30, 2003		Quarter over Quarter	
	Net Revenue	% of North America	Net Revenue	% of North America	Variance	Variance %
United States	\$ 60,011	50%	\$ 73,309	55%	\$ (13,298)	(18)%
Canada	59,452	49%	57,551	44%	1,901	3%
Other	771	1%	923	1%	(152)	(16)%
North America Total	\$ 120,234	100%	\$ 131,783	100%	\$ (11,549)	(9)%

Europe: European net revenue increased \$12.1 million or 12% to \$115.3 million for the three months ended September 30, 2004 from \$103.2 million for the three months ended September 30, 2003. There was an increase of \$8.0 million in prepaid calling cards, an increase of \$3.5 million in cellular handsets and services and an increase in carrier business of \$2.7 million, primarily in the United Kingdom, partially offset by decreases in retail voice services of \$2.2 million. A shift of revenues occurred as part of the prepaid calling card business was moved out of the Netherlands' operation to the United Kingdom's operation. Included in the increase in Europe, foreign currency had a positive impact of \$5.3 million due to the strengthening of the GBP and EUR against the USD when comparing exchange rates for the three months ended September 30, 2004 to the three months ended September 30, 2003.

Revenue by Country	For the three months ended September 30, 2004		For the three months ended September 30, 2003		Quarter over Quarter	
	Net Revenue	% of Europe	Net Revenue	% of Europe	Variance	Variance %
United Kingdom	\$ 65,511	57%	\$ 40,217	39%	\$ 25,294	63%
Netherlands	18,986	16%	31,518	30%	(12,532)	(39)%
Germany	12,483	11%	12,528	12%	(45)	(0)%
France	4,232	4%	4,816	5%	(584)	(12)%
Other	14,100	12%	14,163	14%	(63)	(0)%
Europe Total	\$ 115,312	100%	\$ 103,242	100%	\$ 12,070	12%

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Asia-Pacific: Asia-Pacific net revenue increased \$5.5 million or 6% to \$98.8 million for the three months ended September 30, 2004 from \$93.2 million for the three months ended September 30, 2003. The increase is attributable to an increase of \$5.1 million from our Australian operation, which was comprised of an increase in Internet and hosting revenues of \$5.7 million, including the acquisition of AOL/7 Pty Ltd ("AOL/7") which contributed \$5.5 million, offset by decreases in residential revenues of \$0.9 million and decreases in business revenues of \$0.5 million. Asia-Pacific foreign currency had a positive impact of \$6.8 million due to the strengthening of the AUD against the USD when comparing exchange rates for the three months ended September 30, 2004 to the three months ended September 30, 2003.

Revenue by Country	For the three months ended September 30, 2004		For the three months ended September 30, 2003		Quarter over Quarter	
	Net Revenue	% of Asia- Pacific	Net Revenue	% of Asia- Pacific	Variance	Variance %
Australia	\$ 93,372	94%	\$ 88,305	95%	\$ 5,067	6%
Japan	2,625	3%	2,715	3%	(90)	(3%)
Other	2,781	3%	2,220	2%	561	25%
Asia-Pacific Total	\$ 98,778	100%	\$ 93,240	100%	\$ 5,538	6%

Cost of revenue increased \$9.0 million to \$204.8 million, or 61.3% of net revenue, for the three months ended September 30, 2004 from \$195.8 million, or 59.6% of net revenue, for the three months ended September 30, 2003. The increase in cost of revenue as a percentage of net revenue is primarily a result of a change in product mix of higher margin revenue products such as prepaid calling cards and Internet services and low margin carrier revenue. North American cost of revenue decreased \$3.8 million, primarily attributable to a decrease of \$4.1 million in prepaid calling cards, a decrease of \$3.6 million in costs associated with Canada and United States retail voice business, partially offset by an increase in United States carrier services of \$1.9 million and an increase in Internet service costs of \$1.6 million related to the acquisition of Magma in Canada. European cost of revenue increased by \$8.9 million, which is mainly attributable to a \$4.4 million increase in prepaid calling cards, a \$2.9 million increase in carrier services and a \$2.8 million increase in cellular handsets and services, partially offset by a decrease of \$1.8 million in retail voice services. An increase of \$3.9 million in cost of revenue in Asia-Pacific is attributable to a \$3.9 million increase in Australia, mostly in the residential voice traffic, along with increased Internet service costs from the AOL/7 acquisition.

Selling, general and administrative expenses increased \$13.1 million to \$100.4 million, or 30.0% of net revenue, for the three months ended September 30, 2004 from \$87.3 million, or 26.6% of net revenue, for the three months ended September 30, 2003. The increase in selling, general and administrative expenses is primarily attributable to an increase of \$5.6 million in salaries and benefits which reflects additional spending for retail VOIP, local and cellular initiatives; an increase of \$2.6 million in professional fees which includes efforts related to Sarbanes-Oxley compliance and strategic tax planning; an increase of \$2.6 million in sales and marketing related to the new product initiatives and defense of core businesses, including increases in North America of \$1.3 million, Europe of \$0.5 million and Asia-Pacific of \$0.7 million; an increase of \$0.9 million of occupancy costs for the two data centers acquired as part of the acquisitions of Magma and AOL/7; and a \$1.2 million increase in other administrative expenses.

Depreciation and amortization expense increased \$1.5 million to \$22.7 million for the three months ended September 30, 2004 from \$21.2 million for the three months ended September 30, 2003. The increase consists of an increase in depreciation expense of \$1.8 million, primarily as a result of acquisitions in Australia and Canada slightly offset by a decrease in amortization expense of \$0.3 million as several customer lists became fully amortized in 2003.

Interest expense decreased \$5.5 million to \$11.2 million for the three months ended September 30, 2004 from \$16.7 million for the three months ended September 30, 2003. The decrease is primarily a result of \$11.2 million in interest saved from the reduction of senior debt and other financing arrangements in the past twelve months, partially offset by \$5.7 million in interest expense from our debt offerings in September 2003 and January 2004.

Gain (loss) on early extinguishment of debt was a gain of \$2.9 million for the three months ended September 30, 2004 and a loss of \$1.4 million for the three months ended September 30, 2003. The gain of \$2.9 million resulted from our purchase of \$8.1 million in principal amount of our October 1999 Senior Notes, prior to maturity, for \$7.1 million in cash; purchase of \$4.0 million principal amount of our 2000 Convertible Subordinated Debentures, prior to maturity, for \$3.0 million in cash; and the settlement of \$6.1 million outstanding payment obligation from the acquisition of Cable & Wireless' United States-based retail switched voice services customer base for \$5.0 million in cash, slightly offset by the write-off of related deferred financing costs. The loss of \$1.4 million in the three months ended September 30, 2003 consisted of \$1.1 million in fees related to our purchase of senior notes and a \$0.3 million write-off of deferred financing costs and warrant amortization.

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Interest and other income increased \$9.7 million to \$9.9 million for the three months ended September 30, 2004, from \$0.2 million for the three months ended September 30, 2003. The increase is primarily due to the release of a provision for a tax assessment, including interest and penalties, related to a business acquisition in March 1999 (see Note 7). In August 2004, we were released from the tax assessment in its entirety, and recorded a \$9.2 million gain.

Foreign currency transaction gain (loss) increased \$9.3 million to a gain of \$9.7 million for the three months ended September 30, 2004 from a gain of \$0.4 million for the three months ended September 30, 2003. The increase is attributable to the impact of period-end foreign currency exchange rate changes on intercompany debt balances and on receivables and payables denominated in a currency other than the subsidiaries' functional currency.

Income tax expense increased to \$1.5 million for the three months ended September 30, 2004 from \$0.7 million for the three months ended September 30, 2003. The expense for the three months ended September 30, 2004 consists primarily of \$1.4 million of foreign withholding tax on intercompany interest and royalty fees owed to our United States subsidiaries by our Canadian and Australian subsidiaries. For the three months ended September 30, 2003, \$0.4 million of the expense consists of foreign withholding tax on intercompany interest owed to our United States subsidiary by our Canadian and Australian subsidiaries, and \$0.2 million of income tax recognized by our Canadian subsidiary.

Results of operations for the nine months ended September 30, 2004 as compared to the nine months ended September 30, 2003

Net revenue increased \$65.1 million or 7% to \$1,014.0 million for the nine months ended September 30, 2004 from \$948.9 million for the nine months ended September 30, 2003.

North America: North American net revenue increased \$3.1 million or 1% to \$372.6 million for the nine months ended September 30, 2004 from \$369.5 million for the nine months ended September 30, 2003. The increase is primarily attributed to an increase in prepaid calling cards of \$17.8 million; an increase of \$13.9 million in carrier services; and an increase of \$9.2 million in Internet services in Canada (primarily due to the April 2004 acquisition of Magma), offset by a decrease of \$39.2 million in the United States, primarily in retail voice services in the nine months ended September 30, 2004 compared to the nine months ended September 30, 2003. Of the increase in North America, foreign exchange rates had a positive impact of \$12.3 million due to the strengthening of the CAD against the USD when comparing the exchange rates for the nine months ended September 30, 2004 to the nine months ended September 30, 2003.

Revenue by Country	For the nine months ended September 30, 2004		For the nine months ended September 30, 2003		Year-to-date over Year-to-date	
	Net Revenue	% of North America	Net Revenue	% of North America	Variance	Variance %
United States	\$ 190,812	51%	\$ 214,121	58%	\$(23,309)	(11%)
Canada	179,164	48%	152,715	41%	26,449	17%
Other	2,628	1%	2,711	1%	(83)	(3%)
North America Total	\$ 372,604	100%	\$ 369,547	100%	\$ 3,057	1%

Europe: European net revenue increased \$11.8 million to \$334.2 million for the nine months ended September 30, 2004 from \$322.4 million for the nine months ended September 30, 2003. There was an increase of \$17.9 million in prepaid calling cards, along with an increase of \$8.1 million in cellular handsets and services, offset by a decrease in the retail voice services of \$10.4 million and a decrease in carrier services of \$5.3 million. A shift of revenues occurred as part of the prepaid calling card business was moved out of the Netherlands' operation to the United Kingdom's operation. Of the increase in Europe, foreign exchange rates had a positive impact of \$15.5 million due to the strengthening of the GBP and EUR against the USD when comparing the exchange rates for the nine months ended September 30, 2004 to the nine months ended September 30, 2003.

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Revenue by Country	For the nine months ended September 30, 2004		For the nine months ended September 30, 2003		Year-to-date over Year-to-date	
	Net Revenue	% of Europe	Net Revenue	% of Europe	Variance	Variance %
United Kingdom	\$ 176,021	53%	\$ 107,117	33%	\$ 68,904	64%
Netherlands	59,818	18%	116,074	36%	\$ (56,256)	(48)%
Germany	37,198	11%	40,814	13%	\$ (3,616)	(9)%
France	15,378	4%	14,681	4%	\$ 697	5%
Other	45,823	14%	43,741	14%	\$ 2,082	5%
Europe Total	\$ 334,238	100%	\$ 322,427	100%	\$ 11,811	4%

Asia-Pacific: Asia-Pacific net revenue increased \$50.1 million or 20% to \$307.1 million for the nine months ended September 30, 2004 from \$257.0 million for the nine months ended September 30, 2003. The increase is attributable to an increase of \$47.1 million from our Australian operation, which was comprised of an increase in residential voice services of \$14.6 million, business voice services of \$6.7 million and Internet services of \$20.5 million, including the acquisition of AOL/7 which contributed \$13.0 million. Of the total increase, \$39.2 million is associated with the positive impact of the strengthening AUD against the USD.

Revenue by Country	For the nine months ended September 30, 2004		For the nine months ended September 30, 2003		Year-to-date over Year-to-date	
	Net Revenue	% of Asia-Pacific	Net Revenue	% of Asia-Pacific	Variance	Variance %
Australia	\$ 289,746	94%	\$ 242,638	94%	\$ 47,108	19%
Japan	8,895	3%	8,334	4%	561	7%
Other	8,479	3%	6,002	2%	2,477	41%
Asia-Pacific Total	\$ 307,120	100%	\$ 256,974	100%	\$ 50,146	20%

Cost of revenue increased \$31.3 million to \$613.5 million, or 60.5% of net revenue, for the nine months ended September 30, 2004 from \$582.2 million, or 61.4% of net revenue, for the nine months ended September 30, 2003. The decrease in cost of revenue as a percentage of net revenue is primarily a result of a change in product mix involving low margin carrier revenue and other higher margin revenue products such as prepaid calling cards and Internet services. With the majority of cost of revenue being variable, based on minutes of use, the increase in cost of revenue is primarily attributable to the increase in traffic which is also reflected in the increase in net revenue. North American cost of revenue increased \$4.4 million primarily due to an increase of \$13.1 million associated with the increase in carrier services, an increase of \$9.0 million in prepaid calling card services and a \$2.9 million increase in Internet services in Canada with the acquisition of Magma. This increase is partially offset by the decline in costs of \$18.2 million related to the revenue decrease in retail voice services in North America. European cost of revenue decreased \$0.8 million primarily due to a decrease in \$10.8 million in retail voice services, a \$4.2 million decrease in carrier services, offset by an increase in cellular handsets and services of \$6.2 million and a \$7.2 million increase in prepaid calling cards. An increase of \$27.7 million in cost of revenue in Asia-Pacific is attributable to a \$26.4 million increase in Australia, mostly in the residential and business voice traffic, along with the increase in Internet services costs from AOL/7.

Selling, general and administrative expenses increased \$36.1 million to \$290.2 million, or 28.6% of net revenue, for the nine months ended September 30, 2004 from \$254.1 million, or 26.8% of net revenue, for the nine months ended September 30, 2003. The increase in selling, general and administrative expenses is attributable to a \$15.4 million increase in salaries and benefits which reflects additional spending for retail VOIP, local and cellular initiatives; an \$8.6 million increase in sales and marketing expenses; \$5.5 million in professional fees which includes efforts related to Sarbanes-Oxley compliance and strategic tax planning; a \$3.2 million increase in other administrative expenses; and a \$2.6 million increase in occupancy costs for the two data centers acquired as part of the acquisitions of Magma and AOL/7.

Depreciation and amortization expense increased \$6.7 million to \$69.4 million for the nine months ended September 30, 2004 from \$62.7 million for the nine months ended September 30, 2003. The increase consists of an increase in depreciation expense of \$7.3 million primarily as a result of acquisitions in Australia and Canada slightly offset by a decrease in amortization expense of \$0.6 million as several customer lists became fully amortized in 2003.

Loss on sale of fixed assets increased \$1.1 million to \$1.9 million for the nine months ended September 30, 2004 from \$0.8 million for the nine months ended September 30, 2003. The loss in the nine months ended September 30, 2004 was primarily the result of a sale of network equipment which was decommissioned when it was replaced by

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newer technology during the three months ended June 30, 2004. The loss in 2003 was associated with the sale of our satellite earth station in the United Kingdom during the three months ended June 30, 2003.

Interest expense decreased \$8.8 million to \$37.9 million for the nine months ended September 30, 2004 from \$46.7 million for the nine months ended September 30, 2003. The decrease is a result of \$26.6 million in interest saved from the reduction of senior debt and other financing arrangements in the past twelve months, offset by \$16.9 million in interest expense from our debt offerings in September 2003 and January 2004, and a \$0.9 million early termination penalty for reduction of debt.

Gain (loss) on early extinguishment of debt was a loss of \$11.0 million for the nine months ended September 30, 2004, from a gain of \$13.3 million for the nine months ended September 30, 2003. The loss of \$11.0 million resulted from our purchase of \$194.5 million in principal amount of our senior notes, prior to maturity, for \$204.5 million in cash, and a \$3.1 million write-off of related deferred financing costs; and the purchase of \$4.0 million in principal amount of our convertible subordinated debentures, prior to maturity, for \$3.0 million; and a gain on the settlement of \$6.1 million outstanding payment obligation from the acquisition of Cable & Wireless' United States-based retail switched voice services customer bases for \$5.0 million in cash. The gain of \$13.3 million in the nine months ended September 30, 2003 consisted of a \$10.3 million gain as a result of our purchase of \$53.8 million in principal amount of senior notes, prior to maturity, for \$42.5 million in cash, slightly offset by the write-off of related deferred financing costs, and a \$4.3 million gain related to the settlement of an outstanding vendor debt obligation of \$14.9 million in Europe for approximately \$10.6 million in cash. The gain is partially offset by a \$1.1 million fee related to our purchase of senior notes and a \$0.3 million write-off of deferred financing costs and warrant amortization.

Interest and other income increased \$10.8 million to \$11.2 million for the nine months ended September 30, 2004, from \$0.4 million for the three months ended September 30, 2003. The increase is primarily due to the release of a provision for a tax assessment, including interest and penalties, related to a business acquisition in March 1999 (see Note 7). In August 2004, we were released from the tax assessment in its entirety and recorded a \$9.2 million gain.

Foreign currency transaction gain (loss) decreased \$31.4 million to a loss of \$6.1 million for the nine months ended September 30, 2004 from a gain of \$25.2 million for the nine months ended September 30, 2003. The decrease is attributable to the impact of period-end foreign currency exchange rate changes on intercompany debt balances and on receivables and payables denominated in a currency other than the subsidiaries' functional currency.

Income tax expense increased to \$4.0 million for the nine months ended September 30, 2004 from \$3.7 million for the nine months ended September 30, 2003. The expense for the nine months ended September 30, 2004 primarily consists of foreign withholding tax on intercompany interest and royalty fees owed to our United States subsidiaries by our Canadian and Australian subsidiaries. For the nine months ended September 30, 2003, the expense primarily consists of \$2.2 million of income tax recognized by our Canadian subsidiary and \$1.3 million of foreign withholding tax on intercompany interest owed to our United States subsidiary by our Canadian and Australian subsidiaries.

Liquidity and Capital Resources

Changes in Cash Flows

Our principal liquidity requirements arise from cash used in operating activities, purchases of network equipment including switches, related transmission equipment and capacity, developing of back-office systems, interest and principal payments on outstanding debt and other obligations, new product initiatives and acquisitions. We have financed our growth and operations to date through public offerings and private placements of debt and equity securities, vendor financing, capital lease financing and other financing arrangements.

Net cash provided by operating activities was \$51.5 million for the nine months ended September 30, 2004 as compared to net cash provided by operating activities of \$49.5 million for the nine months ended September 30, 2003. For the nine months ended September 30, 2004, operations generated \$89.9 million of cash, \$29.3 million of which was used to pay down our accounts payable, accrued expenses, accrued income taxes and other liabilities, and \$3.0 million was used to pay down accrued interest. Additional cash was generated through collections of accounts receivable of \$3.8 million, but was offset by payments for inventory of the cellular handsets and prepaid expenses of \$4.0 million in cash. Also in 2004, an additional \$4.4 million of cash was restricted for operating purposes. For the nine months ended September 30, 2003, operations generated \$78.7 million of cash, \$10.9 million of which was used to pay down our accounts payable, accrued expenses, accrued income taxes and other liabilities, and \$3.0 million was used to pay down accrued interest. A negative impact to cash was caused by an increase of accounts receivable by \$25.1 million, which was partially mitigated as inventories, prepaid expenses and other current assets decreased by \$9.2 million.

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Net cash used in investing activities was \$54.5 million for the nine months ended September 30, 2004 compared to \$15.3 million for the nine months ended September 30, 2003. Net cash used by investing activities during the nine months ended September 30, 2004 included \$26.3 million of capital expenditures primarily for our global network and back-office support systems, along with cash used for business acquisitions in the amount of \$28.2 million – mostly for AOL/7 in Australia and Magma Communications, Ltd. (“Magma”) and Onramp Network Services, Inc. (“Onramp”) in Canada. For the nine months ended September 30, 2003, net cash used by investing activities consisted of \$14.4 million for capital expenditures and \$0.9 million was used for acquisitions.

Net cash used in financing activities was \$1.6 million for the nine months ended September 30, 2004 as compared to \$5.5 million for the nine months ended September 30, 2003. During the nine months ended September 30, 2004, cash provided by financing activities consisted of \$233.0 million in net proceeds from the issuance of our 2004 Senior Notes and \$2.2 million in other financing, offset by \$207.5 million used for the purchase or redemption of certain of our debt securities and \$30.6 million of principal payments on capital leases, vendor financing and other long-term obligations. During the nine months ended September 30, 2003, cash used in financing activities consisted of \$52.5 million for the purchase of certain of our debt securities, \$98.5 million for principal payments on capital leases, vendor financing and other long-term obligations, partially offset by \$126.8 million in net proceeds from the sale of our 2003 Convertible Senior Notes, \$8.9 million in proceeds from the sale of convertible preferred stock and \$9.1 million in proceeds from the issuance of other long-term obligations.

Short- and Long-Term Liquidity Considerations and Risks

We believe that our existing cash and cash equivalents and internally generated funds from operating activities will be sufficient to fund our debt service requirements and other fixed obligations (such as capital leases, vendor financing and other long-term obligations), capital expenditures, resolution of vendor disputes, and other cash needs for our operations through at least the next twelve months. Long-term funding may require the issuance of additional debt or equity. Based on historical results and our business forecasts, we believe our plan for short-term and long-term funding expectations are accurate and achievable. We believe our aggregate capital expenditures will be approximately \$40 million in 2004. We expect these spending levels to remain consistent over the next few years. These capital expenditures are expected to be funded in part through existing cash and cash equivalents and/or internally generated funds. We will continue to have significant debt and debt service obligations during the next twelve months and on a long-term basis. However, there can be no assurance that changes in assumptions or conditions, including those referenced under “Legal Proceedings” and “Special Note Regarding Forward-Looking Statements” will not adversely affect our financial condition or short-term or long-term liquidity position. As of September 30, 2004, we have \$34.3 million in future minimum purchase obligations, \$32.1 million in future operating lease payments and \$560.9 million of indebtedness with payments of principal and interest due as follows:

Year Ending December 31,	Vendor Financing	Senior Notes	Senior Convertible Notes	Other Long Term Obligations	Convertible Subordinated Debentures	Purchase Obligations	Operating Leases	Total
	(amounts in thousands)							
2004 (as of September 30)	\$ 4,485	\$ 5,267	\$ —	\$ 2,161	\$ —	\$ 599	\$ 3,476	\$ 15,988
2005	15,752	29,333	4,950	2,105	3,859	25,575	10,086	91,660
2006	14,260	29,333	4,950	2,952	3,859	8,100	7,123	70,577
2007	5,123	29,333	4,950	186	69,049	—	5,671	114,312
2008	1,775	29,333	4,950	56	—	—	3,468	39,582
Thereafter	237	431,549	141,900	213	—	—	2,286	576,185
Total Minimum Principal & Interest Payments	41,632	554,148	161,700	7,673	76,767	34,274	32,110	908,304
Less: Amount Representing Interest	(4,701)	(236,533)	(29,700)	(423)	(9,648)	—	—	(281,005)
Total Principal Payments	\$36,931	\$ 317,615	\$ 132,000	\$ 7,250	\$ 67,119	\$ 34,274	\$ 32,110	\$ 627,299

From time to time, we maintain a dialogue with potential debt and equity investors for raising capital for additional liquidity, debt reduction, refinancing of existing indebtedness and for additional working capital and growth opportunities. There can be no assurance we will be successful in these efforts to obtain new capital at acceptable

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terms. If we are successful in raising additional financing, securities comprising a significant percentage of our diluted capital may be issued in connection with the completion of such transactions. Additionally, if our plans or assumptions change, including those with respect to our debt levels or the development of the network and new products and services and the level of our operations and cash from operating activities, if our assumptions prove inaccurate, if we consummate additional investments or acquisitions, if we experience unexpected costs or competitive pressures or if existing cash and any other borrowings prove to be insufficient, we may need to obtain such financing and/or relief sooner than expected. In such circumstances, there can be no assurance we will be successful in these efforts to obtain new capital at acceptable terms.

In light of the foregoing, we and/or our subsidiaries will evaluate and determine on a continuing basis, depending on market conditions and the outcome of events described herein under “Special Note Regarding Forward-Looking Statements,” the most efficient use of our capital, including investment in our network and systems, lines of business and new products, potential acquisitions, purchasing, refinancing, exchanging or retiring certain of our outstanding debt securities and other instruments in privately negotiated transactions, open market transactions or by other means directly or indirectly to the extent permitted by our existing covenant restrictions.

The purchase price for Telesonic Communications, Inc. (“TCI”), a Canadian prepaid card company, may increase based on additional consideration to be paid, as provided by the terms of the acquisition agreement, if the acquired company’s adjusted revenues exceed certain targeted levels by May 2005.

We have contractual obligations to utilize an external vendor for certain back-office support functions and to utilize network facilities from certain carriers with terms greater than one year. We do not purchase or commit to purchase quantities in excess of normal usage or amounts that cannot be used within the contract term. We have minimum annual purchase obligations of \$34.3 million in total remaining in 2004, 2005 and 2006.

In March 1999, we purchased the common stock of London Telecom Network, Inc. and certain related entities that provide long distance telecommunications services in Canada (the “LTN Companies”). In April 2001, the LTN Companies received a federal notice and, in May 2002, a provincial notice of tax assessment disputing certain deductions from taxable income made by the LTN Companies, prior to our acquisition, in the aggregate amount of \$6.0 million (8.0 million CAD), plus penalties and interest of \$12.6 million (16.7 million CAD). In August 2004, we were released from the tax assessment in its entirety and recorded a \$9.2 million gain.

Off Balance Sheet Arrangements

Our off balance sheet arrangements consist primarily of an investment in an unconsolidated affiliate, Bekkoame Internet, Inc. of which we own 37%, and account for under the equity method. We have not entered into any transactions with special purpose entities, nor have we engaged in any derivative transactions. We do not guaranty financing obtained by our unconsolidated investment, nor are there any other provisions of our investment agreement with our unconsolidated investment which are unusual or subject us to risks to which we would not be subjected if we had full ownership of the investment. We provide indemnity and indemnity insurance pursuant to which directors and officers are indemnified or insured against liability or loss under certain circumstances which may include liability or related loss under the Securities Act of 1933 and the Exchange Act of 1934.

Recent Accounting Pronouncements

In March 2004, the Financial Accounting Standards Board (“FASB”) approved Emerging Issue Task Force (“EITF”) Issue 03-6, “Participating Securities and the Two-Class Method under Statement of Financial Accounting Standards (“SFAS”) 128.” EITF Issue 03-6 supersedes the guidance in Topic No. D-95, “Effect of Participating Convertible Securities on the Computation of Basic Earnings per Share,” and requires the use of the two-class method of participating securities. The two-class method is an earnings allocation formula that determines earnings per share for each class of common stock and participating security according to dividends declared or accumulated and participation rights in undistributed earnings. EITF Issue 03-6 is effective for reporting periods beginning after March 31, 2004 and should be applied by restating previously reported earnings per share. The adoption of EITF Issue 03-6 did not have an effect on our consolidated financial position or results of operations.

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In January 2003, the FASB issued FASB Interpretation (“FIN”) No. 46(R), “Consolidation of Variable Interest Entities.” FIN No. 46(R) clarifies the application of Accounting Research Bulletin (“ARB”) No. 51, “Consolidated Financial Statements,” to certain entities in which the equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN No. 46(R) applies immediately to variable interest entities created after January 31, 2003, or in which we obtain an interest after that date. With respect to variable interest entities created prior to February 1, 2003, FIN No. 46(R) was effective March 31, 2004. The adoption of FIN No. 46(R) did not have a material effect on our consolidated financial position or results of operations.

Special Note Regarding Forward Looking Statements

Certain statements in this quarterly report on Form 10-Q and elsewhere constitute “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Such statements are based on current expectations, and are not strictly historical statements. Forward-looking statements include, without limitation, statements set forth in this document and elsewhere regarding, among other things:

- expectations of future growth, revenue, foreign revenue contributions and net income, as well as income from operations, earnings per share, cash flow, working capital, network development, spending on new product initiatives, including the development of Internet, VOIP, cellular and local services, traffic development, capital expenditures, selling, general and administrative expenses, goodwill impairment charges, service introductions and cash requirements;
- increased competitive pressures and accelerated response involving new product initiatives, bundled service offerings and DSL network build-out;
- financing, refinancing and/or debt repurchase, restructuring or exchange plans or initiatives;
- liquidity and debt service forecasts;
- assumptions regarding currency exchange rates;
- management’s plans, goals, expectations, guidance, objectives, strategies, and timing for future operations, acquisitions, product plans and performance;
- the impact of matters described under “Business—Legal Proceedings;” and
- management’s assessment of market factors.

Factors and risks, including certain of those described in greater detail herein, that could cause actual results or circumstances to differ materially from those set forth or contemplated in forward-looking statements include, without limitation:

- changes in business conditions causing changes in the business direction and strategy by management;
- accelerated competitive pricing and bundling pressures in the markets in which we operate, particular from incumbent local exchange carriers (“ILECs”);
- accelerated decrease in minutes of use on wireline phones;
- fluctuations in the exchange rates of currencies, particularly any strengthening of the USD relative to foreign currencies of the countries where we conduct our foreign operations;
- adverse interest rate developments;

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- difficulty in maintaining or increasing customer revenues and margins through our new product initiatives and bundled service offerings, and difficulties and delays in constructing and operating a proposed DSL network in Australia;
- inadequate financial resources to promote and to market the new product initiatives;
- fluctuations in prevailing trade credit terms or revenues due to the adverse impact of, among other things, further telecommunications carrier bankruptcies or adverse bankruptcy related developments affecting our large carrier customers;
- the possible inability to raise additional capital when needed, on acceptable terms, or at all;
- the inability to reduce, repurchase, exchange or restructure debt significantly, or in amounts sufficient to conduct regular ongoing operations;
- further changes in the telecommunications or Internet industry, including rapid technological changes, regulatory changes in our principal markets and the nature and degree of competitive pressure that we may face;
- adverse tax rulings from applicable taxing authorities;
- DSL, Internet, cellular and telecommunications competition;
- changes in financial, capital market and economic conditions;
- changes in service offerings or business strategies;
- difficulty in migrating or retaining customers associated with recent acquisitions of customer bases, or integrating other assets;
- difficulty in selling new services in the marketplace;
- difficulty in providing local, VOIP or cellular services;
- changes in the regulatory schemes or requirements and regulatory enforcement in the markets in which we operate;
- restrictions on our ability to follow certain strategies or complete certain transactions as a result of our inexperience with new product initiatives, our capital structure or debt covenants;
- risks associated with our limited DSL, Internet, VOIP, Web hosting and cellular experience and expertise, including cost effectively utilizing new marketing channels such as interactive marketing utilizing the Internet;
- entry into developing markets;
- the possible inability to hire and/or retain qualified executive management, sales, technical and other personnel, and to manage growth;
- risks associated with international operations;
- dependence on effective information systems;
- dependence on third parties to enable us to expand and manage our global network and operations and to offer local, VOIP and cellular services;

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- dependence on the implementation and performance of our global ATM+IP communications network;
- adverse outcomes of outstanding litigation matters;
- adverse FCC rulings or fines affecting our operations;
- the potential elimination or limitation of a substantial amount or all of our United States or foreign operating loss carryforwards due to significant issuances of equity securities, changes in ownership or other circumstances, which carryforwards would otherwise be available to reduce future taxable income; and
- the outbreak or escalation of hostilities or terrorist acts and adverse geopolitical developments.

As such, actual results or circumstances may vary materially from such forward-looking statements or expectations. Readers are also cautioned not to place undue reliance on these forward-looking statements which speak only as of the date these statements were made. We are not necessarily obligated to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Factors, which could cause results to differ from expectations, include risks described in greater detail below associated with:

Liquidity Restrictions; Possible Inability to Obtain Necessary Financing. We believe that our existing cash and internally generated funds will be sufficient to fund our operations, debt service requirements, capital expenditures, acquisitions and other cash needs for our operations at least through the next twelve months. However, there are substantial risks, uncertainties and changes that could cause actual results to differ from our current belief, particularly as predatory pricing by certain ILECs have intensified competitive pressures in the markets where we operate. See also information under “Liquidity and Capital Resources—Short- and Long-Term Liquidity Considerations and Risks” and in this “Special Note Regarding Forward-Looking Statements.” If adverse events referenced therein were to occur, we may not be able to service our debt or other obligations and could, among other things, be required to seek protection under the bankruptcy laws of the United States or other similar laws in other countries.

Substantial Indebtedness; Liquidity. We currently have substantial indebtedness and anticipate that we and our subsidiaries may incur additional indebtedness in the future. The level of our indebtedness (1) could make it difficult for us to make required payments of principal and interest on our outstanding debt, including the notes; (2) could limit our ability to obtain any necessary financing in the future for working capital, capital expenditures, debt service requirements or other purposes; (3) requires that a substantial portion of our cash flow, if any, be dedicated to the payment of principal and interest on outstanding indebtedness and other obligations and, accordingly, such cash flow will not be available for use in our business; (4) could limit our flexibility in planning for, or reacting to, changes in our business; (5) results in our being more highly leveraged than many of our competitors, which may place us at a competitive disadvantage; and (6) will make us more vulnerable in the event of a downturn in our business.

Limited Experience in Delivering New Product Initiatives and in Providing Bundled Local, Cellular, Internet, Data and VOIP Services. During 2004, we accelerated initiatives to provide cellular, broadband, VOIP and local wireline services in certain markets where we operate. During the third quarter of 2004 we accelerated initiatives to become an integrated wireline, cellular and broadband service provider in order to counter competitive pricing pressures initiated by large incumbent providers in certain of the principal markets where we operate and to stem the migration of certain of our wireline and ISP customers to our competitors' bundled cellular, wireline and broadband service offerings. Our experience in providing these new products in certain markets and in providing these bundled service offerings is limited. Our primary competitors include incumbent telecommunications providers, cable companies and other ISPs that have a significant national or international presence. Many of these operators have substantially greater resources, capital and operational experience than we do. We also expect that we will experience increased competition from traditional telecommunications carriers and cable companies and other new entrants that expand into the market for broadband, Internet services and traditional voice services. Therefore, future operations involving these individual or bundled services may not succeed in this new competitive environment, we may not be able to expand successfully and we may experience margin pressure. As a result, there can be no assurance that we will maintain or increase revenues or that we will be able to generate income from operations or net income in the future or on any predictable basis.

Pricing Pressure. The long distance telecommunications, Internet, data and cellular industry is significantly influenced by the marketing and pricing decisions of the larger long distance industry, Internet access and cellular business participants. Prices in the long distance industry have declined in recent years, and as competition continues

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to increase within each of our service segments and each of our product lines, we believe that prices are likely to continue to decrease. Our competitors in our core markets include, among others: AT&T, MCI, Sprint, the regional Bell operating companies (RBOCs) and the major cellular carriers in the United States; Telstra, SingTel Optus and Telecom New Zealand in Australia; Telus, BCE, CallNet, Allstream (formerly AT&T Canada) and the major cellular companies in Canada; and BT, Cable & Wireless United Kingdom, MCI, Colt Telecom, Energis and the major cellular carriers in the United Kingdom. Customers frequently change long distance providers and ISPs in response to the offering of lower rates or promotional incentives, including bundling of various services, by competitors. Moreover, competitors' VOIP and broadband product rollouts have added further customer choice and pricing pressure. As a result, generally, customers can switch carriers and service offerings at any time. Competition in all of our markets is likely to remain intense, or even increase in intensity and, as deregulatory influences are experienced in markets outside the United States, competition in non-United States markets is likely to become similar to the intense competition in the United States. Many of our competitors are significantly larger than we are and have substantially greater financial, technical and marketing resources, larger networks, a broader portfolio of service offerings, greater control over transmission lines, stronger name recognition and customer loyalty, long-standing relationships with our target customers, and lower leverage ratios. As a result, our ability to attract and retain customers may be adversely affected. Many of our competitors enjoy economies of scale that result in low cost structures for transmission and related costs that could cause significant pricing pressures within the industry. Several long distance carriers in the United States, Canada and Australia and the major cellular carriers and cable companies, have introduced pricing and product bundling strategies that provide for fixed, low rates for calls. This strategy could have a material adverse effect on our net revenue per minute, results of operations and financial condition if increases in telecommunications usage and potential cost declines do not result from, or are insufficient to offset the effects of, such price decreases. Many companies emerging out of bankruptcy might benefit from a lower cost structure and might apply pricing pressure within the industry to gain market share. We compete on the basis of price, particularly with respect to our sales to other carriers, and also on the basis of customer service and our ability to provide a variety of telecommunications products and services. If such price pressures and bundling strategies intensify, we may not be able to compete successfully in the future.

Managing Growth. Our continued growth and expansion may place a significant strain on our management, operational and financial resources, and increase demand on our systems and controls. To manage our growth effectively, we must continue to implement and improve our operational and financial systems and controls, purchase and utilize other transmission facilities, and expand, train and manage our employee base. If we inaccurately forecast the movement of traffic onto our network, we could have insufficient or excessive transmission facilities and disproportionate fixed expenses. As we proceed with our development, operational difficulties could arise from additional demand placed on customer provisioning and support, billing and management information systems, product delivery and fulfillment, on our support, sales and marketing and administrative resources and on our network infrastructure. For instance, we may encounter delays or cost-overruns or suffer other adverse consequences in implementing new systems when required. In addition, our operating and financial control systems and infrastructure could be inadequate to ensure timely and accurate financial reporting.

Historical and Future Operating Losses and Net Losses. As of September 30, 2004, we had an accumulated deficit of \$(693.9) million. The Company incurred net losses of \$(63.6) million in 1998, \$(112.7) million in 1999, \$(174.7) million in 2000, \$(306.2) million in 2001, \$(34.6) million in 2002 and \$(8.8) million for the nine months ended September 30, 2004. During the year ended December 31, 2003, we recognized net income of \$54.8 million, of which \$39.4 million is the positive impact of foreign currency transaction gains. Our net income and net revenue growth should not necessarily be considered to be indicative of future net income and net revenue growth. We cannot assure you that we will recognize net income, or net revenue will grow or be sustained in future periods. If we cannot generate net income or operating profitability, we may not be able to meet our debt service or working capital requirements.

Integration of Acquired Businesses. We strive to increase the volume of voice and data traffic that we carry over our existing global network in order to reduce transmission costs and other operating costs as a percentage of net revenue, improve margins, improve service quality and enhance our ability to introduce new products and services. Future acquisitions may be pursued to further our strategic objectives, including those described above. Acquisitions of businesses and customer lists, a key element of our historical growth strategy, involve operational risks, including the possibility that an acquisition does not ultimately provide the benefits originally anticipated by management. Moreover, there can be no assurance that we will be successful in identifying attractive acquisition candidates, completing and financing additional acquisitions on favorable terms, or integrating the acquired business or assets into our own. There may be difficulty in integrating the service offerings, distribution channels and networks gained through acquisitions with our own. Successful integration of operations and technologies requires the dedication of management and other personnel, which may distract their attention from the day-to-day business, the development or

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acquisition of new technologies, and the pursuit of other business acquisition opportunities, and there can be no assurance that successful integration will occur in light of these factors.

Intense Competition in Telecommunications. The local and long distance telecommunications, data, broadband, VOIP and cellular industry is intensely competitive with relatively limited barriers to entry in the more deregulated countries we operate and with numerous entities competing for the same customers. Recent and pending deregulation in various countries may encourage new entrants to compete, including ISPs, cellular companies, cable television companies, who may offer voice, broadband, Internet access and television, and electric power utilities who may offer voice and broadband Internet access. For example, the United States and many other countries have committed to open their telecommunications markets to competition pursuant to an agreement under the World Trade Organization which began on January 1, 1998. Further, in the United States, as certain conditions have been met under the Telecommunications Act of 1996, the RBOCs have been allowed to enter the long distance market, AT&T, MCI and other long distance carriers have been allowed to enter the local telephone services market, and any entities, including cable television companies and utilities, have been allowed to enter both the local service and long distance telecommunications markets. Moreover, the rapid enhancement of VOIP technology may result in increasing levels of traditional domestic and international voice long distance traffic being transmitted over the Internet, as opposed to traditional telecommunication networks such as ours. Currently, there are significant capital investment savings and cost savings associated with carrying voice traffic employing VOIP technology, as compared to carrying calls over traditional networks. Thus, there exists the possibility that the price of traditional long distance voice services will decrease in order to be competitive with VOIP. Additionally, competition is expected to be intense to switch customers to VOIP product offerings, as is evidenced by numerous recent market announcements in the United States and internationally from industry leaders and competitive carriers concerning significant VOIP initiatives. Our ability effectively to retain our existing customer base and generate new customers, either through our network or our own VOIP offerings, may be adversely affected by accelerated competition arising as a result of VOIP initiatives. As competition intensifies as a result of deregulatory, market or technological developments, our results of operations and financial condition could be adversely affected.

Dependence on Transmission Facilities-Based Carriers. We primarily connect our customers' telephone calls through transmission lines that we lease under a variety of arrangements with other facilities-based long distance carriers. Many of these carriers are, or may become, our competitors. Our ability to maintain and expand our business depends on our ability to maintain favorable relationships with the facilities-based carriers from which we lease transmission lines. If our relationship with one or more of these carriers were to deteriorate or terminate, it could have a material adverse effect upon our cost structure, service quality, network diversity, results of operations and financial condition.

International Operations. We have significant international operations and, as of September 30, 2004, derive more than 75% of our revenues by providing services outside of the United States. In international markets, we are smaller than the principal or incumbent telecommunications carrier that operates in each of the foreign jurisdictions where we operate. In these markets, incumbent carriers are likely to control access to, and pricing of, the local networks; enjoy better brand recognition and brand and customer loyalty; generally offer a wider range of product and services; and have significant operational economies of scale, including a larger backbone network and more correspondent agreements. Moreover, the incumbent carrier may take many months to allow competitors, including us, to interconnect to its switches within its territory. There can be no assurance that we will be able to obtain the permits and operating licenses required for us to operate; obtain access to local transmission facilities on economically acceptable terms; or market services in international markets. In addition, operating in international markets generally involves additional risks, including unexpected changes in regulatory requirements, taxes, tariffs, customs, duties and other trade barriers, difficulties in staffing and managing foreign operations, problems in collecting accounts receivable, political risks, fluctuations in currency exchange rates, restrictions associated with the repatriation of funds, technology export and import restrictions, and seasonal reductions in business activity. Our ability to operate and grow our international operations successfully could be adversely impacted by these risks and uncertainties particularly in light of the fact that we derive such a large percentage of our revenues from outside of the United States.

Foreign Exchange Risks. A significant portion of our net revenue is derived from sales and operations outside the United States. The reporting currency for our consolidated financial statements is the USD. The local currency of each country is the functional currency for each of our respective entities operating in that country. In the future, we expect to continue to derive a significant portion of our net revenue and incur a significant portion of our operating costs outside the United States, and changes in exchange rates have had and may continue to have a significant, and potentially adverse, effect on our results of operations. Our primary risk of loss regarding foreign currency exchange rate risk is caused by fluctuations in the following exchange rates: USD/AUD, USD/CAD, USD/GBP, and USD/EUR.

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For the year ended December 31, 2003, our results were favorably impacted by a weakening of the USD compared to the foregoing currencies. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Quantitative and Qualitative Disclosures about Market Risk.” Due to the large percentage of our operations conducted outside of the United States, strengthening of the USD relative to one or more of the foregoing currencies could have an adverse impact on future results of operations. We historically have not engaged in hedging transactions and do not currently contemplate engaging in hedging transactions to mitigate foreign exchange risks. In addition, the operations of affiliates and subsidiaries in foreign countries have been funded with investments and other advances denominated in foreign currencies. Historically, such investments and advances have been long-term in nature, and we accounted for any adjustments resulting from currency translation as a charge or credit to “accumulated other comprehensive income (loss)” within the stockholders’ deficit section of our consolidated balance sheets. In 2002, agreements with certain subsidiaries were put in place for repayment of a portion of the investments and advances made to the subsidiaries. As we anticipate repayment in the foreseeable future of these amounts, we recognize the unrealized gains and losses in foreign currency transaction gain (loss) on the consolidated statements of operations, and depending upon changes in future currency rates, such gains or losses could have a significant, and potentially adverse, effect on our results of operations.

Industry Changes. The telecommunications industry is changing rapidly due to deregulation, privatization, technological improvements, availability of alternative services such as cellular, VOIP, and wireless DSL through use of the fixed wireless spectrum, and the globalization of the world’s economies. In addition, alternative services to traditional fixed wireline services, such as cellular and VOIP services, are a substantial competitive threat. If we do not adjust our contemplated plan of development to meet changing market conditions and if we do not have adequate resources, we may not be able to compete effectively. The telecommunications industry is marked by the introduction of new product and service offerings and technological improvements. Achieving successful financial results will depend on our ability to anticipate, assess and adapt to rapid technological changes, and offer, on a timely and cost-effective basis, services that meet evolving industry standards. If we do not anticipate, assess or adapt to such technological changes at a competitive price, maintain competitive services or obtain new technologies on a timely basis or on satisfactory terms, our financial results may be materially and adversely affected.

Network Development; Migration of Traffic. Our long-term success depends on our ability to design, implement, operate, manage and maintain a reliable and cost-effective network. In addition, we rely on third parties to enable us to expand and manage our global network and to provide local, broadband and cellular services. If we fail to generate additional traffic on our network, if we experience technical or logistical impediments to our ability to migrate traffic onto our network, or if we experience difficulties with our third-party providers, we may not achieve desired economies of scale or otherwise be successful in growing our business.

Dependence on Key Personnel. The loss of the services of K. Paul Singh, our Chairman and Chief Executive Officer, or the services of our other key personnel, or our inability to attract and retain additional key management, technical and sales personnel, could have a material adverse effect upon us.

Government Regulation. Our operations are subject to constantly changing regulation. There can be no assurance that future regulatory changes will not have a material adverse effect on us, or that regulators or third parties will not raise material issues with regard to our compliance or noncompliance with applicable regulations, any of which could have a material adverse effect upon us. As a multinational telecommunications company, we are subject to varying degrees of regulation in each of the jurisdictions in which we provide our services. Local laws and regulations, and the interpretation of such laws and regulations, differ significantly among the jurisdictions in which we operate. Enforcement and interpretations of these laws and regulations can be unpredictable and are often subject to the informal views of government officials. Recent widespread regulatory changes in the United Kingdom and potential future regulatory, judicial, legislative and government policy changes in other jurisdictions where we operate could have a material adverse effect on us. Domestic or international regulators or third parties may raise material issues with regard to our compliance or noncompliance with applicable regulations, and therefore may have a material adverse impact on our competitive position, growth and financial performance. Regulatory considerations that affect or limit our business include (1) United States common carrier requirements not to discriminate unreasonably among customers and to charge just and reasonable rates; (2) general uncertainty regarding the future regulatory classification of and taxation of VOIP telephony; if regulators decide that VOIP is a regulated telecommunications service, our VOIP services may be subject to burdensome regulatory requirements and fees, we may be obligated to pay carriers additional interconnection fees and operating costs may increase; (3) general changes in access charges, universal service and regulatory fee payments would affect our cost of providing long distance services; and (4) general changes in access charges and contribution payments could adversely affect our cost of providing long distance, cellular, VOIP,

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local and other services. Any adverse developments implicating the foregoing could materially adversely affect our business, financial condition, result of operations and prospects.

Natural Disasters. Many of the geographic areas where we conduct our business may be affected by natural disasters, including hurricanes and tropical storms. Hurricanes, tropical storms and other natural disasters could have a material adverse effect on the business by damaging the network facilities or curtailing voice or data traffic as a result of the effects of such events, such as destruction of homes and businesses.

Terrorist Attacks. We are a United States-based corporation with significant international operations. Terrorist attacks, such as the attacks that occurred in New York and Washington, D.C. on September 11, 2001, and subsequent worldwide terrorist actions, including apparent action against companies operating abroad, may negatively affect our operations. We cannot assure you that there will not be further terrorist attacks that impact our employees, network facilities or support systems, either in the United States or in any of the other countries in which we operate. Certain losses resulting from these types of events are uninsurable and others are not likely to be covered by our insurance. Terrorist attacks may directly impact our business operations through damage or harm to our employees, network facilities or support systems, increased security costs or the general curtailment of voice or data traffic. Any of these events could result in increased volatility in or damage to our business and the United States and worldwide financial markets and economies.

Risks Related to Significant Sales of our Common Stock. Significant future sales of our common stock in the public market, including in particular the shares offered under the Common Stock Resale Registration (defined below) and the Note Registration Statement (defined below), could lower our stock price and impair our ability to raise funds in new stock offerings. There are 22,616,990 shares of common stock that were issued upon conversion of our Series C Preferred Stock in November 2003 that are registered for resale under an effective registration statement (the “Common Stock Registration”) under the Securities Act of 1933 (the “Securities Act”). These shares, in general, may be freely resold under the Securities Act pursuant to the Common Stock Registration. In addition, the holders of the 3¾% convertible senior notes due 2010 (the “2010 Convertible Notes”) have a registration statement that has been declared effective under the Securities Act covering these notes and common stock issuable upon conversion of these notes (the “Note Registration Statement”). Sales of a substantial amount of common stock in the public market pursuant to the registration statements described above or Rule 144 under the Securities Act, or the perception that these sales may occur, could create selling pressure on our common stock and adversely affect the market price of our common stock prevailing from time to time in the public market and could impair our ability to raise funds in additional stock offerings.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our primary market risk exposures relate to changes in foreign currency exchange rates and to changes in interest rates.

Foreign currency – A significant portion of our net revenue is derived from sales and operations outside the United States. The reporting currency for our consolidated financial statements is the USD. The local currency of each country is the functional currency for each respective entity. In the future we expect to continue to derive a significant portion of our net revenue and incur a significant portion of our operating costs outside the United States, and changes in exchange rates have had and may continue to have a significant, and potentially adverse effect on our results of operations. Our primary risk of loss regarding foreign currency exchange rate risk is caused primarily by fluctuations in the following exchange rates: USD/AUD, USD/CAD, USD/GBP, and USD/EUR. Due to the large percentage of our revenues derived outside of the United States, strengthening of the USD relative to one or more of the foregoing currencies, could have an adverse impact on our future results of operations. In addition, the operations of affiliates and subsidiaries in foreign countries have been funded with investments and other advances. Prior to 2002, such investments and advances have been long-term in nature, and we accounted for any adjustments resulting from translation as a charge or credit to “accumulated other comprehensive income (loss)” within the stockholders’ deficit section of the consolidated balance sheets. In 2002, agreements with certain subsidiaries were put in place for repayment of a portion of the investments and advances made to the subsidiaries. As we are anticipating repayment in the foreseeable future of these amounts, we recognize the unrealized gains and losses in foreign currency transaction gain (loss) on the consolidated statements of operations.

We are exposed to financial statement gains and losses as a result of translating the operating results and financial position of our international subsidiaries. We translate the local currency statements of operations of our foreign subsidiaries into USD using the average exchange rate during the reporting period. Changes in foreign exchange rates affect our reported profits and losses and cash flows and may distort comparisons from year to year. By way of example, when the USD strengthens compared to the EUR, there is a negative effect on our reported results for Europe. It takes more profits in EUR to generate the same amount of profits in stronger USD. The opposite is also true. That is, when the USD weakens there is a positive effect on our reported results for Europe.

In the nine months ended September 30, 2004, the USD weakened compared to the AUD, CAD, GBP and EUR. As a result, our revenue of the subsidiaries whose local currency is the AUD, CAD, GBP and EUR increased (decreased) 3%, 10%, 45% and (34)% in local currency compared to the nine months ended September 30, 2003, but increased (decreased) 19%, 17%, 64% and (27)% in USD, respectively.

Interest rates – All of our long-term debt obligations are at fixed interest rates. We are exposed to interest rate risk as additional financing may be required. Our primary exposure to market risk stems from fluctuations in interest rates. We do not currently anticipate entering into interest rate swaps and/or similar instruments.

The interest rate sensitivity table below summarizes our market risks associated with fluctuations in interest rates as of September 30, 2004 in USD, which is our reporting currency. The table presents principal cash flows and related weighted average interest rates by year of expected maturity for our senior notes, convertible senior notes, convertible subordinated debentures, leased fiber capacity, equipment financing, and other long-term obligations in effect at September 30, 2004. In the case of the convertible senior notes and convertible subordinated debentures, the table excludes the potential exercise of the relevant redemption and conversion features.

	Year of Maturity						Total	Fair Value
	2004	2005	2006	2007	2008	Thereafter		
(in thousands, except percentages)								
Interest Rate Sensitivity								
Fixed Rate	\$5,793	\$15,255	\$15,953	\$72,136	\$1,740	\$450,038	\$560,915	\$415,762
Average Interest Rate	6%	8%	7%	6%	8%	8%	7%	

ITEM 4. CONTROLS AND PROCEDURES

Our management evaluated, with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on this evaluation, our principal executive officer and our principal financial officer have concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective. Disclosure controls and procedures mean our controls and other procedures that are designed to ensure that information required to be disclosed by us in our reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in our reports that we file or submit under the Securities Exchange Act of 1934 is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

There have been no changes in our internal control over financial reporting or in other factors that could significantly affect internal controls over financial reporting, that occurred during the period covered by this report, nor subsequent to the date we carried out our evaluation, that have materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

2004 Class Action Securities Litigation

Federal Securities Class Actions. Between August 17, 2004 and October 5, 2004, we and two of our executive officers (the “Primus Defendants”) were named as defendants in six class action lawsuits filed in the United States District Court for the Eastern District of Virginia, five of which were filed in the Alexandria Division (the “Alexandria Actions”) and one in the Richmond Division. The court has consolidated the Alexandria Actions under the caption “In re Primus Telecommunications Group, Incorporated Securities Litigation”, and a motion has been filed to consolidate the lawsuit filed in Richmond with the Alexandria Actions. Plaintiffs are suing on behalf of certain purchasers (the “Class”) of Primus securities between August 5, 2003 and July 29, 2004 (the “Class Period”). In one action, Fener, the Class Period begins on November 11, 2003. Plaintiffs allege that the Primus Defendants violated Sections 10(b) and 20(a) of the Exchange Act and Rule 10b-5. Plaintiffs seek damages, among other things, on the theory that the Primus Defendants fraudulently published false and misleading statements and/or fraudulently concealed adverse, non-public information about Primus, thereby artificially inflating the price of our securities. Motions have been filed by two groups to be appointed as lead plaintiff, and we anticipate that the Court will appoint a lead plaintiff by late November of 2004, and a consolidated amended complaint will be filed within 30 days thereafter. The Primus Defendants will have 30 days to either answer or file a motion to dismiss the consolidated amended complaint.

Shareholder Derivative Action. In September 2004, Richard J. Taddy filed a shareholder derivative action in the Alexandria Division of the United States District Court for the Eastern District of Virginia against members of our Board of Directors, a former director, a board observer and three of our executive officers (the “Primus Defendants”) on behalf of Primus for alleged violations of state law, including breach of fiduciary duty, abuse of control, gross mismanagement, waste of corporate assets and unjust enrichment. Damages are sought based on allegations that, between “November 2003 and the present,” the Primus Defendants (1) publicly issued false and misleading statements and concealed adverse, non-public information about Primus, (2) engaged in, or permitted, illegal insider trading, and (3) engaged in, or permitted, various acts of “gross mismanagement” and “corporate waste.” On November 1, 2004, the Primus Defendants filed a motion to dismiss the derivative action.

We intend to defend vigorously against the Federal Securities Class Actions and Shareholder Derivative Action and believe that the plaintiffs’ claims are without merit. However, our ultimate legal and financial liability with respect to these matters cannot be estimated with certainty at this time. The Primus Defendants have insurance coverage for these matters. Nonetheless, an adverse result in excess of amounts covered by insurance could have a material adverse effect on our consolidated financial position, results of operations and cash flows.

Other

Dismissal of Tutor.net Litigation. We and certain of our executive officers had been defendants in two separate securities lawsuits brought by stockholders (“Plaintiffs”) of Tutor.net.com, Inc. (“Tutor.net”) in the United States District Courts in Virginia and New Jersey. Plaintiffs sued Tutor.net and several of its officers (collectively, the “Non-Primus Defendants”) alleging fraud in the sale of Tutor.net securities. Plaintiffs also named us and several of our executive officers (the “Primus Defendants”) as co-defendants. No officer of Primus had ever served as an officer or director of Tutor.net or acquired any securities of Tutor.net. Neither we nor any of our subsidiaries or affiliates own, or have ever owned, any securities of Tutor.net.

In the Virginia case, the Primus Defendants were dismissed before the case went to the jury. The case continued against the Non-Primus Defendants, and the jury rendered a verdict in favor of Plaintiffs against the Non-Primus Defendants only. In May 2003, Plaintiffs filed an appeal in the 4th Circuit of the United States Court of Appeals (4th Circuit) regarding the Primus Defendants’ dismissal. On July 16, 2004, the three-judge panel of the 4th Circuit affirmed the district court’s decision. Plaintiffs did not file a petition for rehearing before the three-judge panel or rehearing before all the judges on the 4th Circuit within the required 14-day period, which period expired on July 30, 2004. On October 14, 2004, the time period available to plaintiffs to seek Supreme Court review lapsed. Accordingly, this matter has been finally determined.

The New Jersey case was filed on September 24, 2002 and included claims against the Primus Defendants. The Primus Defendants moved to dismiss, and the case was stayed pending further decision by the court in the Virginia case. After the April 2, 2003 decision in the Virginia case, the parties in the New Jersey case agreed to a dismissal without prejudice of the claims against the Primus Defendants, with

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dismissal subject to, and connected with, the appeal by the plaintiffs in the Virginia case. Plaintiffs have been notified of the 4th Circuit's decision to affirm the district court decision in the Virginia case, and this matter has been finally determined.

Telecommunications Dispute. On December 9, 1999, Empresa Hondurena de Telecomunicaciones, S.A. ("Plaintiff"), based in Honduras, filed suit in Florida State Court in Broward County against TresCom and one of TresCom's wholly-owned subsidiaries, St. Thomas and San Juan Telephone Company, alleging that such entities failed to pay amounts due to Plaintiff pursuant to contracts for the exchange of telecommunications traffic during the period from December 1996 through September 1998. We acquired TresCom in June 1998, and TresCom is currently our subsidiary. Plaintiff is seeking approximately \$14 million in damages, plus legal fees and costs. We filed an answer on January 25, 2000, and discovery has commenced. We have recorded an accrual for the amounts that management estimates to be the probable loss. Our legal and financial liability with respect to such legal proceeding would not be covered by insurance, and our ultimate liability, if any, cannot be estimated with certainty at this time. Accordingly, an adverse result for the full amount sought or some significant percentage thereof could have a material adverse effect on our financial results. We intend to defend the case vigorously. We believe that this suit will not have a material adverse effect on our consolidated financial position, results of operations and cash flows.

Do-Not-Call. In December 2003, Primus Telecommunication Inc. ("PTI"), our principal United States operating subsidiary, was served with notice that the Federal Communications Commission (FCC) was conducting an inquiry regarding 96 alleged telephone calls made on behalf of PTI to residential telephone lines that were either (1) included on the Do-Not-Call Registry or (2) to consumers who directly requested not to receive telemarketing calls from PTI. In September 2004, PTI settled this matter by entering into a Consent Decree with the FCC in which PTI paid the FCC \$400,000 and agreed to implement a more comprehensive compliance program in this regard.

We are subject to certain other claims and legal proceedings that arise in the ordinary course of our business activities. Each of these matters is subject to various uncertainties, and it is possible that some of these matters may be decided unfavorably to us. We believe that any aggregate liability that may ultimately result from the resolution of these other matters will not have a material adverse effect on our consolidated financial position and results of operations.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits (see index on page 52)

(b) Reports on Form 8-K

Form 8-K dated July 29, 2004 was filed to announce the Company's financial results for the quarter ended June 30, 2004.

Form 8-K dated October 15, 2004 was filed to announce that the audit committee of the Company, in consultation with the Company's management and the independent registered public accounting firm, determined, among other things, to effect corrections that should be made to restate the

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Company's basic weighted average common shares outstanding and increase previously reported basic and diluted income per common share disclosed in the consolidated financial statements included in Part II, Item 8 of the Company's Form 10-K for the year ended December 31, 2003 as originally filed with the Securities and Exchange Commission ("SEC") on March 15, 2004, and in quarterly reports for the quarters ended June 30, 2004, March 31, 2004 and September 30, 2003 as initially filed with the SEC. The Company also determined to amend information contained in the footnotes to its consolidated condensed financial statements included in Part I, Item 1 of the Company's Form 10-Q for the quarterly periods ended March 31, 2004 and June 30, 2004 as originally filed with the Securities and Exchange Commission on May 10, 2004 and August 9, 2004, respectively, to reflect the capital contribution of certain of the Company's intercompany receivables and payables balances to the Company's wholly-owned subsidiary, Primus Telecommunications Holding, Inc. ("PTHI"), which occurred in connection with PTHI's issuance of 8% senior notes that are guaranteed by the Company, in January 2004. Form 8-K/A dated October 15, 2004 was filed to amend the Company's consolidated financial statements included as part of the Company's Form 8-K filed with the SEC on April 29, 2004 to restate basic weighted average common shares outstanding and basic and diluted income per common share.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

Date: November 9, 2004

By: /s/ NEIL L. HAZARD

Neil L. Hazard

*Executive Vice President, Chief Operating Officer and Chief
Financial Officer (Principal Financial Officer)*

Date: November 9, 2004

By: /s/ TRACY BOOK LAWSON

Tracy Book Lawson

*Vice President – Corporate Controller (Principal Accounting
Officer)*

EXHIBIT INDEX

<u>Exhibit Number</u>	<u>Description</u>
10.1	Loan agreement, as amended, dated as of October 5, 2004 between the Manufactures Life Insurance Company and Primus Canada Inc. and 3082833 Nova Scotia Company.
31	Certifications.
32	Certification*.

* This certification is being “furnished” and will not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act (15 U.S.C. 78r) and will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent that the registrant specifically incorporates it by reference.

FIRST AMENDMENT TO THE AMENDED AND RESTATED LOAN AGREEMENT

THIS AGREEMENT dated as of the 5th day of October, 2004

AMONG:

PRIMUS TELECOMMUNICATIONS CANADA INC.,
a company amalgamated under the laws of the Province of Ontario
(hereinafter called the "**Borrower**")

- and -

3082833 NOVA SCOTIA COMPANY,
a unlimited liability company amalgamated under the laws of Nova Scotia
(hereinafter called the "**Shareholder**")

- and -

THE MANUFACTURERS LIFE INSURANCE COMPANY,
a corporation incorporated under the laws of Canada and each other financial institution or person which is now or hereafter becomes a signatory hereto
(hereinafter called the "**Lenders**")

- and -

THE MANUFACTURERS LIFE INSURANCE COMPANY,
a corporation incorporated under the laws of Canada
(hereinafter called the "**Agent**")

WHEREAS a predecessor to the Borrower, a predecessor to the Shareholder, the Lenders and the Agent entered into a loan agreement dated for reference February 11th, 2003 to provide the Borrower with a secured non-revolving term loan credit facility;

AND WHEREAS the aforesaid loan agreement was amended by a First Amendment to the Loan Agreement dated March 18th, 2003 and by a Second Amendment to the Loan Agreement dated December 8, 2003;

AND WHEREAS the aforesaid loan agreement and amendments thereto were replaced by an amended and restated loan agreement dated as of the 8th day of April 2004 (the "**Amended and Restated Loan Agreement**");

AND WHEREAS Borrower has requested and the Lenders have agreed to extend the maturity date and amend certain terms and conditions of the Amended and Restated Loan Agreement in accordance with the provisions thereof;

NOW THEREFORE in consideration of the covenants and agreements hereinafter set out and for other good and valuable consideration (the receipt and sufficiency which are hereby acknowledged), it is hereby agreed by the parties hereto as follows:

1. Section 1.1(hh) of the Amended and Restated Loan Agreement is hereby deleted and the following substituted therefore:
(hh) **“Intercompany Note”** means the promissory note dated January 1, 2000 between the Borrower as debtor and the Shareholder as holder in the original principal amount of Cdn. \$98,000,000.00 as amended by an amendment to promissory note dated February 11, 2003 and as further amended by a second amendment to promissory note dated October 5th, 2004;
2. Section 1.1(uu) of the Amended and Restated Loan Agreement is hereby deleted and the following substituted therefore:
(uu) **“Maturity Date”** means April 8, 2007;
3. Section 4.1 of the Amended and Restated Loan Agreement is hereby amended by the addition of a subsection (c) as follows:
(c) In the event that the Borrower (i) prepays the entire amount of principal owing hereunder, in accordance with paragraph (b) of this Section 4.1, and (ii) has fulfilled all other obligations to the Lenders under this or any other agreement it may have with the Lenders, the Lenders shall, at the Borrower’s cost, promptly enter into appropriate termination and release documentation and release and discharge all of the security held by the Lenders pursuant to Article 5 hereof.
4. Section 4.2 of the Amended and Restated Loan Agreement is hereby amended by deleting the words “fifteen (15) days” from the second line thereof and replacing them with the words “four (4) days”.
5. In line 13 of Section 6.1(m) of the Amended and Restated Loan Agreement, item (iv) is hereby deleted and the following substituted therefore:
(iv) save and except for the amendments dated February 11, 2003 and October 5th, 2004, the Intercompany Note has not been amended, and

6. Section 8.1(k)(i) and Section 8.1(k)(ii) of the Amended and Restated Loan Agreement are hereby deleted and the following substituted therefore:
 - (i) **Monthly Statements** – as soon as possible and, in any event, within thirty (30) days after the end of each month a monthly income statement for the prior month;
 - (ii) **Quarterly Statements** – as soon as possible and, in any event, within forty-five (45) days after the end of each quarter, a calculation of EBITDA for the quarter, a quarterly and fiscal year to date financial report consisting of consolidated and, if applicable unconsolidated unaudited financial statements of the Borrower and the Shareholder and any subsidiaries of the Borrower conducting any portion of its business in Canada, consisting of a balance sheet, a statement of retained earnings, a statement of income and a statement of changes in financial position on a consolidated basis, along with a comparison to budget and the previous fiscal year and comments on any significant variances from budget;
7. Section 2 of Schedule 8.1(k)(iv) of the Amended and Restated Loan Agreement is hereby deleted and the following substituted therefore:
 2. Minimum EBITDA – Section 8.1 (t): EBITDA for the last quarter of the Period was :
8. Section 8.1 (t) of the Amended and Restated Loan Agreement is hereby deleted and the following substituted therefore:
 - (t) **Minimum EBITDA**
Maintain EBITDA calculated on a consolidated basis of no less than twelve million (\$12,000,000) dollars per quarter measured at the end of the last month in each quarter commencing October 1, 2004 until the Loan is repaid in full.
9. By no later than January 15, 2005, the Borrower shall pay to the Lenders an extension fee of one-hundred eighty-six thousand six hundred and sixty-seven (\$186,667) dollars. The Borrower shall pay all reasonable legal costs and expenses incurred by the Lenders in the negotiation and preparation of all documentation in connection with this Agreement and the registration of all appropriate amendments to security registrations in connection therewith.
10. The parties hereby agree, save and except as specifically amended herein, the Amended and Restated Loan Agreement (and all documentation given in connection therewith) remains in full force and effect and unamended.
11. This Agreement may be executed in two or more counterparts, each of which shall be deemed to be an original and all of which together shall constitute one and the same agreement.

12. This Agreement may be executed by facsimile transmission and if so executed, the facsimile transmission copies of same constitute the original instrument.
13. This Agreement shall be governed by and construed in accordance with the laws of the Province of Ontario and the federal laws of Canada applicable therein.

IN WITNESS WHEREOF the parties hereto have executed this Agreement as of the date first above written.

THE MANUFACTURERS LIFE INSURANCE COMPANY

Per: /s/ Vipon Ghai
Name: Vipon Ghai
Title: AVP

Per: _____
Name:
Title:

PRIMUS TELECOMMUNICATIONS CANADA INC.

Per: /s/ Edward Chislett
Name:
Title:

Per: /s/ Robert Nice
Name:
Title:

3082833 NOVA SCOTIA COMPANY

Per: /s/ Edward Chislett
Name:
Title:

Per: /s/ Robert Nice
Name:
Title:

**THE MANUFACTURERS LIFE
INSURANCE COMPANY**

- and -

**PRIMUS TELECOMMUNICATIONS
CANADA INC.**

- and -

3082833 NOVA SCOTIA COMPANY

AMENDED AND RESTATED LOAN AGREEMENT

FOGLER, RUBINOFF LLP
Suite 4400, Royal Trust Tower
Toronto-Dominion Centre
Toronto, Ontario
M5K 1G8

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AMENDED AND RESTATED LOAN AGREEMENT

THIS AGREEMENT dated as of the day of April, 2004

AMONG:

PRIMUS TELECOMMUNICATIONS CANADA INC.,
a company amalgamated under the laws of the Province of Ontario
(hereinafter called the "**Borrower**")

- and -

3082833 NOVA SCOTIA COMPANY
a unlimited liability company amalgamated under the laws of Nova Scotia
(hereinafter called the "**Shareholder**")

- and -

THE MANUFACTURERS LIFE INSURANCE COMPANY,
a corporation incorporated under the laws of Canada and each other financial institution or person which is now or hereafter becomes a signatory hereto
(hereinafter called the "**Lenders**")

- and -

THE MANUFACTURERS LIFE INSURANCE COMPANY,
a corporation incorporated under the laws of Canada
(hereinafter called the "**Agent**")

WHEREAS a predecessor to the Borrower, a predecessor to the Shareholder, the Lenders and the Agent entered into a loan agreement dated for reference February 11th, 2003 to provide the Borrower with a secured non-revolving term loan credit facility;

AND WHEREAS the aforesaid loan agreement was amended by a First Amendment to the Loan Agreement dated March 18th, 2003 and by a Second Amendment to the Loan Agreement dated December 8, 2003;

AND WHEREAS the Borrower has requested and the Lenders have agreed to increase the principal available under the secured non-revolving term loan credit facility and to extend the maturity date thereof;

AND WHEREAS the parties hereto desire to set forth the terms and conditions that shall govern the establishment and continuation of the said secured term loans and to amend and restate the aforesaid loan agreement;

NOW THEREFORE THIS AGREEMENT WITNESSES that in consideration of the covenants and agreements hereinafter set out and other good and valuable consideration (the receipt and sufficiency of which are hereby acknowledged) it is agreed by the parties hereto as follows:

ARTICLE 1
INTERPRETATION

1.1 Interpretation

In this agreement, unless there is something in the subject matter or context inconsistent therewith, the following words and phrases shall have the following meanings respectively:

- (a) **“Act”** means the *Business Corporations Act* (Ontario) as in effect on the date hereof;
- (b) **“Advances”** means the principal amount of all outstanding advances or drawings of the Loan;
- (c) **“Affiliate”** of any Person means any other Person which, directly or indirectly, is in control of, is controlled by or is under common control with such Person, and for the purposes of this definition, **“control”** (including with correlative meanings the terms **“controlled by”** and **“under common control with”**) means the power to direct or cause the direction of the management and policies of any Person, whether through the ownership of shares or by contract or otherwise;
- (d) **“Agent”** means The Manufacturers Life Insurance Company as agent for the Lenders in the manner and to the extent described here as such, its successors and permitted assigns;
- (e) **“Annual Business Plan”** means, in respect of any Fiscal Year, the annual business plan with respect to the operations of the Borrower for such Fiscal Year, approved by the board of directors of the Borrower containing a forecasted balance sheet, statement of profits and losses and statement of changes in financial position and such other information that is, or can be, prepared internally by the Borrower, as is reasonably requested by any Lender, all in such detail as such Lender may reasonably require;
- (f) **“Applicable Law”** shall mean, with respect to any Person, property, transaction, event or other matter, any law, rule, statute, regulation, order, judgment, decree, treaty, directive or other requirement having the force of law relating or applicable to such Person, property, transaction, event or other matter, and shall also include any interpretation thereof by any Person having jurisdiction over it or charged with its administration or interpretation;

- (g) **“Arm’s Length”** has the meaning specified in the definition of **“Non-Arm’s Length”**;
- (h) **“Associate”** has the meaning given in the Act;
- (i) **“Business”** means the business of the provision of telecommunication, internet services and equipment and professional, advertising and other services and products offered to the Borrower’s customers;
- (j) **“Business Day”** means any day other than a Saturday, Sunday or a day on which financial institutions generally are closed for business in Toronto, Ontario;
- (k) **“Capital Expenditures”** as used herein means any expenditures made which, in accordance with GAAP, are chargeable to a capital or a fixed asset account and include, without limitation, real estate, Capital Lease Obligations and expenditures made in connection with the acquisition of fixed assets, machinery and/or equipment;
- (l) **“Capital Lease Obligations”** of any Person at any time means any obligations of such Person to pay rent or other amounts under a lease of (or other agreement conveying the right to use) personal property which obligations are required to be classified and accounted for as liabilities on a balance sheet prepared in accordance with GAAP;
- (m) **“Cash and Cash Equivalents”** means cash held in specie or on deposit in banks, trust companies or other financial institutions where the funds on deposit can be withdrawn immediately or within 6 months of the date of determination;
- (n) **“CLEC”** means Globility and MIPPS or either of them;
- (o) **“Closing Date”** means April 2, 2004, or such earlier or later date as may be mutually agreed upon by the parties hereto;
- (p) **“Consolidated”** means, when used to describe the calculation of any amount relating to any Person and/or its subsidiaries, consolidated in accordance with GAAP;
- (q) **“Consolidated Net Income”** means, in respect of any Person for any fiscal period, the consolidated net earnings of such Person for such fiscal period after deductions on account of income taxes, as classified and calculated in accordance with GAAP;
- (r) **“Current Assets”** of any Person at any time means the value of all assets (calculated on a consolidated basis) of such Person at that time which, in accordance with GAAP, would normally be regarded as current, save and except for any portion thereof recorded on account of (i) deferred income taxes and (ii) deferred marketing costs;

- (s) **“Current Liabilities”** of any Person at any time means the aggregate of all liabilities (calculated on a consolidated basis) of such Person at that time which, in accordance with GAAP, would normally be regarded as current other than:
- (i) accrued income tax liabilities of up to \$10,000,000;
 - (ii) the principal amount of the Loan then outstanding;
 - (iii) obligations to vendors in connection with acquisitions approved by the Lenders in accordance with Section 8.2(k) hereof during the term of this Agreement as the same may be amended, modified, supplemented or restated from time to time; and
 - (iv) deferred revenue and accrued carrier costs of acquired companies whose acquisition was approved by the Lenders in accordance with Section 8.2(k) hereof;
- (t) **“Current Ratio”** at any time means the fraction, the numerator of which shall be Current Assets at that time and the denominator of which shall be Current Liabilities at that time;
- (u) **“Dollars”** or **“\$”** and all statements of or reference to dollar amounts mean lawful money of Canada, except as otherwise specifically provided;
- (v) **“EBITDA”** means, in respect of any Person and in respect of any fiscal period, the Consolidated Net Income calculated on a consolidated basis for such fiscal period plus:
- (i) amounts deducted in calculating the Consolidated Net Income in respect of depreciation and amortization; plus
 - (ii) amounts deducted in calculating the Consolidated Net Income in respect of Interest Expense; plus
 - (iii) amounts deducted in calculating the Consolidated Net Income in respect of income taxes, whether or not deferred; plus
 - (iv) amounts deducted in calculating Consolidated Net Income in respect of intercorporate fees permitted hereunder;
- from which total shall be excluded any addition or deduction, as the case may be, relating to:
- (v) any gain or loss attributable to the sale, conversion or other disposition of assets other than in the ordinary course of business; and

- (vi) any other extraordinary, non-recurring or unusual items, all calculated in accordance with GAAP;
- (w) **“Environmental Laws”** means all Applicable Laws relating in full or in part to the protections of the environment, product liability and employee and public health and safety, and includes, without limitation, those Environmental Laws relating to the storage, generation, use, handling, manufacture, processing, labelling, advertising, sale, display, transportation, treatment, release and disposal of Hazardous Substances;
- (x) **“Event of Default”, “Events of Default” and “Default”** have the respective meanings set out in Article 10 hereof;
- (y) **“Financial Statements”** means the audited consolidated financial statements of the Shareholder for the fiscal years ending December 31, 2002 and 2003, respectively;
- (z) **“Forward Subscription Agreement”** means the Forward Subscription Agreement between the Borrower and the Immediate Parent dated the 1st day of March, 2004;
- (aa) **“GAAP”** means, subject to Section 1.3, generally accepted accounting principles in Canada, consistently applied from period to period;
- (bb) **“Globility”** means Globility Communications Corporation, a company incorporated under the laws of Canada, its successors and assigns;
- (cc) **“Globility Guarantee and Security Agreement”** means the guarantee and general security agreement dated the date hereof given by the Borrower to the Agent as security for the \$3 million dollar non-revolving term loan provided to Globility by the Lenders;
- (dd) **“Governmental Authority”** means any government, regulatory authority, governmental department, agency, commission, board, tribunal, crown corporation or court or other law, rule or regulation-making entity having or purporting to have jurisdiction on behalf of any nation, or province or state or other subdivision thereof or any municipality, district or other subdivision thereof;
- (ee) **“Hazardous Substance”** means any solid, liquid, gas, odor, heat, sound, vibration or radiation, or combination thereof, that may impair the natural environment, injure or damage human or other animal life, plant life, or property or impair the health of any individual including, without limitation, useful products such as petroleum, asbestos-containing materials, lead-based paint, polychlorinated biphenyl-containing fluids, urea-formaldehyde foam and any substance named or listed as hazardous, toxic, adulterated, misbranded, or dangerous in any Environmental Law;

- (ff) **“Immediate Parent”** means Primus Telecommunications International, Inc., a Delaware corporation, its successors and assigns;
- (gg) **“Indentures”** means:
- (i) Indenture, dated October 15, 1999, between Ultimate Parent and Wachovia Bank, N.A.;
 - (ii) Indenture, dated February 24, 2000, between Ultimate Parent and Wachovia Bank, N.A.;
 - (iii) Indenture dated January 16, 2004, among Ultimate Parent, Intermediate Parent and Wachovia Bank, N.A.; and
 - (iv) Indenture dated September 15, 2003, between Ultimate Parent and Wachovia Bank, N.A.
- (hh) **“Intercorporate Note”** means the promissory note dated January 1, 2000 between the Borrower as debtor and the Shareholder as holder in the original principal amount of Cdn. \$98,000,000.00 as amended by an amendment to promissory note dated February 11, 2003;
- (ii) **“Interest Expense”** means, for any period, the aggregate of the amounts paid or payable by any Person during such period on account of interest for borrowed money (net of interest income), including the interest portion of Capital Lease Obligations, the amortization of deferred financing fees, all as determined in accordance with GAAP;
- (jj) **“Intermediate Parent”** means Primus Telecommunications Holding, Inc., a Delaware Corporation, its successors and assigns;
- (kk) **“Lenders”** means The Manufacturers Life Insurance Company and each other financial institution or person which is now or becomes a signatory hereto and **“Lender”** means any one of them;
- (ll) **“Leverage Ratio”** of a Person at any time means the fraction, the numerator of which is Total Debt of such Person and the denominator of which shall be EBITDA for the most recently completed four fiscal quarters of such Person;
- (mm) **“Lien”** shall mean any mortgage, charge, pledge, hypothecation, lien (statutory or otherwise), security interest or other encumbrance of any nature however arising, or any other security agreement or other arrangement creating in favour of any creditor a right in respect of any particular property that is prior to the right of any other creditor in respect of such property, and includes any blocked account arrangement, title retention and the right of a lessor relative to a Capital Lease Obligation;
- (nn) **“Loan”** has the meaning set out in Section 2.1 hereof;

- (oo) **“Loan Agreement”** or **“Agreement”** means this agreement entitled “Loan Agreement” and all instruments supplemental hereto or in amendment or confirmation hereof. The expressions “Article”, “Section”, “Subsection” and “Schedule” followed by a number or letter mean and refer to the specified Article, Section, Subsection or Schedule of this Agreement, respectively;
- (pp) **“Loan Documents”** means this Agreement, the Promissory Note, the Security, and any and all documents, trust deeds, intercreditor agreements, certificates and instruments delivered by either Obligor or the Parents to the Lenders or the Agent whether on, before or after execution hereof, including any and all amendments, replacements and supplements thereto or thereof made from time to time;
- (qq) **“Loan Interest Rate”** or means seven and three quarters (7.75%) percent per annum;
- (rr) **“Make Whole Premium”** has the meaning set out on Schedule A hereof;
- (ss) **“Material Adverse Effect”** means a material adverse effect (i) on or in relation to the financial condition, operations, assets, liabilities, business, prospects or properties of the Obligors, or on or in relation to the Borrower’s ability to carry on the Business (or a significant portion thereof), or (ii) on or in relation to the ability of an Obligor to perform its obligations under the Loan Documents or under any Material Contracts to which it is a party, and **“Material Adverse Change”** means any event, change, circumstance or occurrence which has or may have a Material Adverse Effect;
- (tt) **“Material Contract”** means each agreement, arrangement or understanding entered into by any of the Obligors, whether written, oral or established by custom or practice, which, if not complied with, could reasonably be expected to have a Material Adverse Effect;
- (uu) **“Maturity Date”** means April , 2006;
- (vv) **“Mipps”** means Mipps Inc., a company amalgamated under the laws of the Province of Ontario, its successors and assigns;
- (ww) **“Non-Arm’s Length Person”** and similar phrases have the meaning attributed thereto for the purposes of the *Income Tax Act* (Canada), and **“Arm’s Length”** shall have the opposite meaning;
- (xx) **“Notes”** means the indebtedness issued by the Parents under the Indentures;
- (yy) **“Obligors”** means the Borrower and the Shareholder and **“Obligor”** means any of them;
- (zz) **“Operating Lease Obligations”** means the obligations to pay rent or other amounts under a lease of (or other agreement conveying the right to use) personal property or real property, which obligations are not required to be classified and accounted for as Capital Lease Obligations in accordance with GAAP;

- (aaa) **“Parents”** means the Immediate Parent, the Intermediate Parent and the Ultimate Parent;
- (bbb) **“Permitted Encumbrances”** means, collectively:
- (i) Liens for taxes, assessments, governmental charges or levies not at the time due and delinquent in respect of which each Obligor has set aside on its books reserves considered by the Lenders, acting reasonably, to be adequate therefor;
 - (ii) Liens given to a public utility or any municipality or governmental or other public authority when required by such utility or other authority in connection with the operations of the Business, all in the ordinary course of the Business;
 - (iii) the Lien created by the Term Debenture;
 - (iv) Liens with respect to additional debt permitted pursuant to subsection 8.2(n)(iii) hereof;
 - (v) statutory Liens incurred in the ordinary course of business in connection with workers compensation, unemployment insurance and other types of social security statutory obligations; and
 - (vi) the Liens described in Schedule B;
- (ccc) **“Person”** means any individual, sole proprietorship, partnership, limited partnership, joint venture, unincorporated association, unincorporated syndicate, unincorporated organization, trust, body corporate, Governmental Authority, and a natural person in such person’s capacity as trustee, executor, administrator or other legal representative;
- (ddd) **“Restricted Subsidiary”** shall have the meaning set forth in the Indentures;
- (eee) **“Security”** means the documents listed in Section 5.1 of this Agreement and all other documents and instruments provided from time to time by the Obligor and/or the Parents as security for the Loan;
- (fff) **“Shareholder”** means 3082833 Nova Scotia Company, its successors and assigns;
- (ggg) **“Term Debenture”** means the debenture in the principal amount of \$237,227,000 dated the 1st day of March, 2004 issued by the Borrower in favour of the Shareholder;

(hhh) **“Total Debt”** of any Person means the aggregate (calculated on a consolidated basis), without duplication, at the date of determination, of all liabilities, obligations and indebtedness of such Person and its subsidiaries, of any kind or nature, now or hereafter owing, arising, due or payable, howsoever evidenced, created, incurred, acquired or owing, whether primary, secondary, direct, fixed or otherwise; provided that Total Debt shall not include (i) the Intercorporate Note, or (ii) any indebtedness that is specifically subordinated and postponed to the obligations of the Borrower, on terms satisfactory to the Agent to the obligations of the Borrower to the Agent and the Lenders;

(iii) **“Ultimate Parent”** means Primus Telecommunications Group, Incorporated, a Delaware corporation, its successors and assigns;

1.2 Schedules

The Schedules listed below and attached hereto form part of this agreement:

Schedule A	Lenders’ Make Whole Premium
Schedule B	Permitted Liens
Schedule C	Promissory Note
Schedule 6.1 (j)	Material Adverse Changes
Schedule 6.1 (l)	Taxes
Schedule 6.1 (m)	Outstanding Obligations
Schedule 6.1 (o)	Leased Property
Schedule 6.1 (q)	Insurance
Schedule 6.1 (r)	Guarantees
Schedule 6.1 (u)	Intellectual Property
Schedule 6.1 (z)	Restrictions on Business
Schedule 6.1 (cc)	Labour Matters
Schedule 7.1 (i)	Litigation
Schedule 8.1(k)(iv)	Compliance Certificates
Schedule 8.2(o)	Management Fees

1.3 Accounting Principles

Any reference to GAAP includes the current accounting principles recommended by the Canadian Institute of Chartered Accountants in the “CICA Handbook” at the relevant time, or in the event that the matter is not covered in the CICA Handbook, principles having general acceptance among accounting professionals in Canada at the particular time. Accounting principles as they exist as of the date of this Agreement shall be consistently applied over the term of this Agreement unless otherwise required or recommended by the Canadian Institute of Chartered Accountants.

1.4 Business Day

If any action required by this Agreement is to be taken on a day which is not a Business Day, such action shall be taken on the next following Business Day, except in the case of any payment required to be made hereunder in which case such payment shall be made on the immediately preceding Business Day.

1.5 Permitted Liens

Except as expressly provided therein, any reference in any of the Loan Documents to a Permitted Lien is not intended to and shall not be interpreted as subordinating or postponing, or as an agreement to subordinate or postpone, any Lien created by any of the Loan Documents to any Permitted Lien.

ARTICLE 2 **THE LOAN**

2.1 Credit

Subject to the terms and conditions hereof, including the Borrower's fulfilment of the conditions precedent set out herein, the Lenders hereby agree to make available to the Borrower, on a non-revolving basis the sum of forty-two million (\$42,000,000) dollars (the "**Loan**"). All Advances to the Borrower shall be denominated in Cdn. Dollars. Advances shall each be in multiples of not less than one million (\$1,000,000) dollars and shall be made available on not less than five (5) Business Days notice from the Borrower to the Agent provided that an Event of Default has not occurred and provided further that all conditions for such Advance have been satisfied. No Advances shall be permitted on or after the commencement of the twenty third month following the Closing Date.

2.2 Advance

The indebtedness resulting from each Advance of the Loan shall be evidenced by the delivery of a grid promissory note in the form attached as Schedule C. Entries recorded by the Agent on the reverse of the promissory note (the "**Entries**") shall be prima facie evidence of the amount of the Loan owing hereunder.

2.3 Letters of Credit

The parties acknowledge and agree that:

- (a) Notwithstanding the provisions of Section 2.1, the Borrower may request certain letters of credit to be issued by Manulife Bank of Canada to constitute an availment of the Loan;
- (b) the applicable letters of credit shall be one or more Letters of Credit (the "**Letters of Credit**") issued by Manulife Bank of Canada on behalf of the Borrower or a Corporation designated by the Borrower, provided that (i) the face amount outstanding at any time of the issued Letters of Credit shall not exceed in aggregate five million (\$5,000,000) dollars (the "**Letter of Credit Carve-out**"), (ii) no Letters of Credit shall have an expiration date later than the Maturity Date and (iii) the form and content of each Letter of Credit shall be acceptable to each of the Borrower, the Lender and Manulife Bank of Canada;

- (c) the ability of the Borrower to utilize the Loan by way of Advances pursuant to Section 2.1 of the Loan Agreement and the availability of the Loan shall be reduced at any time by the aggregate of the face amounts of the Letters of Credit outstanding at such time;
- (d) any drawdown on any Letter of Credit will be reimbursed to Manulife Bank of Canada by way of an Advance made pursuant to the Loan Agreement on the same terms and conditions as any other Advance made pursuant to the Loan Agreement, and the amount of any such Advance shall no longer be available for utilization by way of Letter of Credit and the Letter of Credit Carve-out will be reduced by the amount of such Advance;
- (e) to the extent the Lenders are obliged to reimburse Manulife Bank of Canada with respect to any drawdown made under any Letter of Credit issued as set out in Section 2.3(d) above, any Advances made to so reimburse Manulife Bank of Canada shall be secured by the Security. Notwithstanding the terms hereof, if Manulife Bank of Canada requires any additional indemnity or other document executed to support the issuance of any Letter of Credit the Borrower agrees to provide such indemnities and other documents in connection therewith; and
- (f) the Borrower shall pay a fee to the Lenders in an amount equal to two (2.0%) percent per annum of the face value of Letter of Credit payable on the date of issuance thereof with the minimum fee for each Letter of Credit issued pursuant to the provisions of this Section 2.3 being two (2.0%) percent of the face value of each Letter of Credit.

ARTICLE 3
PAYMENT OF PRINCIPAL AND INTEREST

3.1 Payment of Interest

Interest on all Advances shall accrue and the Borrower shall be liable for and pay interest in respect of Advances made available to it, commencing on and from the date of Advance and continuing while the Loan or any part thereof is outstanding, both before and after maturity, demand, Default and judgment, at the Loan Interest Rate. Interest as aforesaid shall be calculated daily from the date of the First Advance and shall be payable monthly on the last day of each month in arrears.

3.2 Interest on Charges

Unless otherwise specifically provided herein, if any amount payable to the Agent or the Lenders hereunder or under any other Loan Document (including any amount payable under Sections 2.3, 3.1, 3.2, 10.2(b) and Article 11) is not paid when due, such amount will be subject to and bear interest payable on demand, at the Loan Interest Rate calculated as described

in Section 3.1, with, in the case of overdue interest, interest on interest at such rate, compounded monthly, plus, to the extent permitted by Applicable Law, an additional 2% per annum. Such interest shall be calculated daily and compounded monthly in arrears both before and after maturity, the occurrence of an Event of Default, demand and judgement.

3.3 Year

Unless otherwise specified, all annual rates of interest referred to herein are based on a calendar year of three hundred and sixty-five (365) or three hundred and sixty-six (366) days, as the case may be. For the purposes hereof, whenever interest is calculated on the basis of a period of other than three hundred and sixty-five (365) days, each rate of interest determined pursuant hereto expressed as an annual rate for the purposes of the *Interest Act* (Canada) is equivalent to such rate as so determined multiplied by the number of days in the calendar year in which the same is ascertained and divided by the number of days in the relevant interest period under consideration. The rates of interest stipulated in this Agreement are intended to be nominal rates and not effective rates or yields.

3.4 Maximum Interest Rate

Notwithstanding anything herein to the contrary, in no event shall any interest rate or rates referred to above (together with other fees payable hereunder which are construed by a court of competent jurisdiction to be interest or in the nature of interest) exceed the maximum interest rate permitted by Applicable Law. If such maximum interest rate would be exceeded by the terms hereof, the rates of interest payable hereunder shall be reduced to the extent necessary so that such rates (together with any other fees which are construed by a court of competent jurisdiction to be interest or in the nature of interest) equal the maximum interest rate permitted by applicable law, and any overpayment of interest received by the Agent or the Lenders theretofore shall be applied, forthwith after determination of such overpayment, to pay all then outstanding interest, and thereafter to pay outstanding principal on the Loan (and any Lender's Make Whole Premium related thereto), as if the same were a prepayment of principal and treated accordingly hereunder.

3.5 Place and Manner of Payment

All payments of principal, interest (including under Section 3.6) and all other amounts payable to the Lenders shall be made by the Borrower to the Lenders at the Lenders' addresses shown on the execution pages hereof by 2:00 p.m. (Toronto time) on the day specified herein for payment. Payments received after 2:00 p.m. (Toronto time) shall be considered as having been received on the next Business Day following receipt. The Lenders shall promptly notify the Borrower, the Agent and the other Lenders of any failure to receive payment. If any Lender so chooses, the Borrower shall make arrangements to authorize the Lender to debit automatically, by mechanical, electronic or manual means, any bank accounts maintained by the Borrower with such Lender (if any) for all amounts payable by the Borrower to such Lender under this Agreement, including the repayment of principal and the payment of interest and any other amounts due hereunder. Such Lender shall notify the Borrower as to the particulars of those debits in the normal course.

3.6 No Set-Off

All payments to be made by the Borrower or any other party pursuant to this Agreement are to be made in freely transferable, immediately available funds and without set-off, withholding or deduction of any kind whatsoever except to the extent required by Applicable Law, and if any such set-off, withholding or deduction is so required and is made, the Borrower or any other party will, as a separate and independent obligation to each Lender, be obligated to pay to each Lender all such additional amounts as may be required to fully indemnify and save harmless such Lender from such set-off, withholding or deduction and as will result in the effective receipt by such Lender of all the amounts otherwise payable to it in accordance with the terms of this Agreement.

ARTICLE 4 **PREPAYMENT AND REPAYMENT**

4.1 Prepayment of Principal

- (a) The Borrower may not, except in accordance with paragraph (b) of this Section 4.1, prepay any amount of the Loan. Amounts prepaid under said paragraph (b) cannot thereafter be drawn down or re-borrowed by the Borrower.
- (b) The Borrower shall have the right, at any time, to prepay in whole or in part, all or any portion of the principal amount of the Loan then outstanding; provided that in connection therewith (i) the Borrower pays all accrued and unpaid interest on the principal portion of the Loan so prepaid to the date of payment, including all accrued and unpaid additional interest thereon under Sections 3.1 and 3.2, (ii) the minimum principal amount prepaid shall not be less than one million (\$1,000,000) dollars, (iii) the Borrower provides written notice of such prepayment as required under Section 4.2, and (iv) the Borrower pays to the Lenders an additional amount, calculated by the Agent, equal to the Make Whole Premium (calculated in accordance with Schedule A, which calculation shall be conclusive, absent manifest error), calculated based on the amount of principal so prepaid or such lesser amount as is set out below:

PREPAYMENT DATE	MAKE WHOLE PREMIUM
Before 1st Anniversary of Loan Agreement	100% of Make Whole Premium
After 1st Anniversary and before 18 months	70% of Make Whole Premium
After 18 Months	60% of Make Whole Premium

4.2 Notice of Prepayment

The Borrower shall give written notice to the Agent and the Lenders at least fifteen (15) days prior to the Borrower prepaying any principal amounts under the Credit. If a notice of prepayment is given, the Borrower shall prepay the amount designated in the notice of prepayment on the date so designated therein, together with accrued interest to the date of such prepayment and any applicable Make Whole Premium. Each notice of prepayment shall be irrevocable and binding upon the Borrower. All prepayments shall be made rateably amongst the Lenders. The Borrower shall indemnify the Agent and the Lenders against any loss or expense incurred by the Agent and the Lenders as a result of any failure on the part of the Borrower to prepay the amounts specified on the dates specified for such prepayment, including, without limitation, any loss or expense incurred by reason of the liquidation or re-employment of deposits or other funds.

4.3 Repayment of Principal

Unless the Loan shall have been accelerated or otherwise required to be paid at an earlier date pursuant to the terms hereof, the Borrower shall repay the Loan in full and all other amounts due pursuant to this Agreement on the Maturity Date.

ARTICLE 5 **SECURITY**

5.1 Security for Advance

As evidence of the Advances and/or continuing security for the due payment and performance of the Loan and as an additional inducement otherwise to the Lenders to extend the Loan to the Borrower on the terms contemplated by this Agreement and the other Loan Documents, the applicable Obligors shall, and where applicable, the Parents shall on or before the Closing Date (and thereafter if and as the context below indicates or implies) to execute and deliver to the Agent and the Lenders, the following documents in form and content satisfactory to the Agent and the Lenders:

- (a) the Loan Agreement;
- (b) the promissory note in the form attached as Schedule C;
- (c) a general security agreement of the Borrower;
- (d) a hypothec of the Borrower;
- (e) a general assignment of book debts;
- (f) guarantees executed by each of the Parents and the Shareholder;
- (g) a subordination and postponement agreement executed by each of the Parents with respect to all indebtedness of the Obligors;

- (h) a subordination and postponement agreement executed by the Shareholder with respect to all indebtedness of the Borrower owing to it;
- (i) fire and all risk insurance in an amount and on terms satisfactory to the Lender in accordance with the provisions of this Agreement which policies will note the Lender as loss payee as its interest may appear;
- (j) landlord waiver agreements from landlords, in a form satisfactory to the Agent shall have been executed by the landlords of real property leased to the Obligors at the following premises: 151 Front Street West, Toronto; 555 West Hastings Street, Vancouver; 605 1st Street SW, Calgary; 740 Rue Notre Dame, Montreal and 5343 Dundas Street West, Suite 400, Toronto, and copies of each shall have been delivered to the Agent;
- (k) such other security as the Lender reasonably requests and is permitted pursuant to the Subordination Agreement.

5.2 No Prejudice

Nothing contained herein or in any Security, nor any act of the Agent or the Lenders with respect to any such Security shall in any way prejudice or affect the rights, remedies or powers of the Agent or the Lenders with respect to any other security at any time held by the Agent or the Lenders.

5.3 Form of Security

The Security shall be in such form as is satisfactory to the Agent and its legal counsel.

5.4 Registration of Security

The Borrower shall cause the Security (and instruments supplemental or ancillary thereto) to be registered or filed from time to time in all places where, in the opinion of counsel to the Agent and the Lenders, registration or filing is required or advisable to protect any interest created thereby. The Agent on behalf of the Lenders may, at the reasonable expense of the Borrower, register, file or record the Security or notices in respect thereof in all offices where such registration, filing or recording is, in the reasonable opinion of the Agent or its counsel, necessary or of advantage to the creation, perfection and preservation of the security interests arising pursuant thereto. The Agent on behalf of the Lenders may, at the Borrower's expense, renew such registrations, filings and recordings from time to time as and when required to keep them in full force and effect. Each Obligor acknowledges that unless otherwise expressly indicated, the forms of security have been prepared based upon the laws of the Province of Ontario, in effect at the date of execution thereof and that such laws may change, and that the laws of other jurisdictions may require the execution and delivery of different forms of security instruments in order to grant to the Lenders the rights intended to be granted by the Security. Each Obligor shall, on request from the Agent from time to time, execute and deliver to the Agent on behalf of the Lenders such additional security instruments and will amend or supplement any Security theretofore provided to the Lenders:

- (a) to reflect any changes in such laws, whether arising as a result of statutory amendments, court decisions or otherwise;

- (b) to facilitate the registration of appropriate forms of Security in all appropriate jurisdictions; or
- (c) if any entity having delivered security amalgamates with any other Person or enters into any corporate reorganization,

in each case in order to confer on the Agent and the Lenders such security interests with such priority, as are intended to be created by the Security.

The Borrower will pay or indemnify the Agent and the Lenders against any and all stamp duties, registration fees and similar taxes or charges which may be payable or determined to be payable in connection with the execution, delivery, performance, registration or enforcement of this Agreement or any other document or any of the transactions contemplated hereby or thereby.

5.5 Ranking of Security

Subject to the Permitted Encumbrances, the Security shall be a first charge over the assets of the Borrower.

5.6 Supplemental Security

All real or personal property other than shares acquired by the Borrower, or any subsidiary thereof on or after the date of execution of the Security (the “**After-Acquired Property**”) shall be made, contemporaneously with the closing of such acquisition(s), subject to security interests of the same nature and rank as real or personal property of a similar type or nature already subject to the Security and the Borrower, or any subsidiary thereof on request by the Agent on behalf of the Lenders, shall forthwith execute, deliver and register at their own expense, such instruments supplemental to the Security in form and substance satisfactory to the Agent on behalf of the Lenders as may be necessary or desirable to ensure that, subject to the Permitted Encumbrances, the Security constitutes in favour of the Lenders an effective charge over such After-Acquired Property having an identical ranking to the real or personal property of a similar type or nature already subject to the Security.

5.7 Paramountcy

In the event of any conflict between the provisions of any Security and the provisions of this Loan Agreement, the provisions of this Loan Agreement shall be paramount.

5.8 Prohibited Security

Notwithstanding anything herein or in the Security to the contrary, the Obligors acknowledge that neither the Agent nor any Lender has any intent to take security over any asset of any Obligor which (i) requires the consent of any other Person which cannot be obtained, (ii) is prohibited by or contrary to Applicable Law, or (iii) would render the transaction herein

contemplated void. In respect of any security having or which may have the effect described in clauses (ii) and (iii), the Agent and the Lenders hereby disclaim any such security, for so long as same is prohibited by or contrary to Applicable Law or would render the transaction hereby contemplated void. In respect of any security described in clause (i) or in respect of which clause (i) may become applicable, the Borrower shall cause all requisite consents to be obtained on or before the Closing Date (or forthwith after the need for such consent is identified, if the need for such consent did not exist on the Closing Date), and if not so obtained on or before the Closing Date, the Borrower shall obtain all requisite consents as soon as possible after the Closing Date, so that in each instance, the relevant asset may be subjected absolutely and unconditionally to the security in favour of the Agent and the Lenders contemplated in Section 5.1, and until such consent is obtained, the security interest therein shall be deemed to have been created and given to the Agent on behalf of the Lenders effective upon the relevant Obligor acquiring an interest therein, subject to the conditional defeasance of such security interest therein if (i) any such consent is not obtained, (ii) the Person required to consent in connection therewith objects in writing to such security interest, and (iii) the Agent, in response to such objection, determines to resolve such objection by renouncing such security interest, whereupon the Borrower shall (and shall cause each relevant Obligor to) hold, and the Borrower and relevant Obligor shall be deemed *ab initio* to have always held, the relevant asset as trustee for and on behalf of the Agent and the Lenders, and the Borrower shall not (and shall cause each relevant Obligor not to) encumber, dispose of or otherwise deal with such asset, except with the written consent of the Agent on behalf of the Lenders.

5.9 Change of Entity

Without limiting the generality of the restriction contained in Section 8.2(b), each Obligor acknowledges and agrees that, if it amalgamates with any other company or companies, it is the intention of the parties hereto that the mortgages, charges and security interests created by the Security, to the extent given by such Obligor, shall: (a) extend to all collateral and charged premises owned at the time of amalgamation by each of the amalgamating companies and the amalgamated company, and to any collateral and charged premises thereafter owned or acquired by the amalgamated company, such that the term “**Obligor**” when used herein would apply to each of the amalgamating companies and the amalgamated company; and (b) secure the Indebtedness thereafter arising of the amalgamated company to the Agent and the Lenders; and (c) attach to all such additional collateral and charged premises at the time of amalgamation and to any collateral and charged premises thereafter owned or acquired by the amalgamated company at the time at which such collateral and charged premises become owned or otherwise acquired.

ARTICLE 6 **REPRESENTATIONS AND WARRANTIES**

6.1 Representations and Warranties

The Obligors jointly and severally make and give to the Agent and the Lenders the representations and warranties set out below, upon each of which the Agent and the Lenders have relied in entering into this Agreement, in making the Loan available hereunder and in otherwise performing their obligations hereunder.

(a) Valid Incorporation

Each Obligor is a company duly incorporated or continued, and validly subsisting under the laws of the jurisdiction of its incorporation. Each Obligor is duly qualified to carry on the Business in all jurisdictions in which the Business is carried on by it and where the failure to be so qualified would have a Material Adverse Effect on the Borrower, and is in good standing in all material respects under the laws of each of such jurisdictions.

(b) Subsidiaries

Primus has no subsidiaries other than Primus Telecommunications Europe (Holdings) Limited, Echo Online Internet, Inc., and Telesonic Communications Inc. and the Business in Canada is conducted solely by the Borrower.

(c) Authorized and Issued Capital

The authorized and issued capital of the Borrower and the Shareholder and the registered and beneficial owners of such issued capital are as follows:
Borrower:

<u>Authorized Capital</u>	<u>Issued Capital</u>	<u>Registered & Beneficial Owner</u>
unlimited common shares	825,104 common shares	Shareholder

Shareholder:

<u>Authorized Capital</u>	<u>Issued Capital</u>	<u>Registered & Beneficial Owner</u>
unlimited common shares	1,262 common shares	Immediate Parent

(d) Corporate Authority

Each Obligor has the corporate power and authority to carry on the Business in the manner presently carried on, and each Obligor has the power and authority to own its property, to enter into this Agreement, to provide the Security and do all such acts and things as are required hereunder or thereunder to be done, preserved or performed.

(e) Security Authorization

The execution and delivery of this Agreement and the issuance of the Security and other Loan Documents have been duly authorized by all necessary action on the part of the Obligors and, where applicable the Parents. This Agreement and the Security constitute valid and legally binding obligations of the Obligors and where applicable, the Parents enforceable in accordance with the terms thereof and this Agreement.

(f) Ranking of Security

By virtue of the Security, the Lenders have, subject only to the Permitted Encumbrances and any exceptions specifically set out in the Security:

- (i) a valid first fixed and floating specific charge and security interest in all assets, property and undertaking of the Borrower; and
- (ii) a valid assignment of all insurance on the inventory, machinery, equipment, chattels, lands and buildings of the Borrower.

(g) No Defaults

No Obligor is in default or in breach of, or aware of any state of facts which after notice or lapse of time, or both, would constitute a breach of the obligations of an Obligor in any material respect under any material contract or other instrument to which an Obligor is a party or will be a party on the Closing Date or by which it may be bound, including contracts with any customers.

(h) Litigation

There are no actions or proceedings pending against any Obligor or, to the best of its knowledge, threatened against or affecting an Obligor before any court or administrative agency which could result in a Material Adverse Effect.

(i) No Conflict

Neither the execution and delivery of the Loan Documents, the consummation of the transactions therein contemplated nor compliance with the terms and provisions of the Loan Documents will conflict with or result in a breach of any of the terms, conditions and provisions of the articles and other constating documents of an Obligor or any predecessor of any of them, or of any law or any regulation or order to which an Obligor is subject, or, of any agreement to which any Obligor is a party or will be a party on the Closing Date or by which an Obligor may be bound.

(j) Financial Statements

The Financial Statements present fairly the financial position of the respective companies delivering same in respect of the Business as at the date of such statements and the results of the operations and changes in financial position of each of them in accordance with GAAP. Except as set out in Schedule 6.1(j), since February 29, 2004, there has been no Material Adverse Change in the business operations, affairs or conditions of the Borrower relating to the Business or of the Parents, financial or otherwise, or arising as a result of any legislative or regulatory change, revocation of any licence or right to do business, fire, explosion, accident, casualty, labour trouble, flood, drought, riot, storm, condemnation, act of God or otherwise.

(k) Conduct of Business

The Business has been conducted in compliance in all material respects with all Laws. No Obligor is in material breach of any Applicable Law to the extent that its ability to carry on the Business is impaired or which affects in any way the value of its properties and assets and each is duly licensed, registered or qualified to do business in all jurisdictions in which it owns or leases property or carries on business, to enable the Business to be carried on as now conducted and all property and assets to be owned, leased and operated, and all such licenses, registrations and qualifications are valid and subsisting and in good standing.

(1) Taxes

Except as set out on Schedule 6.1(1), no Obligor is in default in the filing of any tax returns required to be filed by it and each has paid all taxes which are due and payable and has paid all assessments and reassessments greater than one-hundred thousand (\$100,000) dollars and all other taxes, governmental charges, penalties, interests and fines due and payable by it on or before the date hereof. Except as set out on Schedule 6.1(1), there are no actions, suits, proceedings, investigations or claims now threatened or pending against any Obligor, in respect of taxes, governmental charges or assessments or any matters under discussion with any Governmental Authority relating to taxes, governmental charges or assessments asserted by any such Governmental Authority. Each Obligor has withheld from each payment made to any of its past or present officers, directors and employees, amounts in respect of all taxes (including but not limited to income tax), and other deductions required to be withheld therefrom and has paid the same to the proper tax or other receiving officers within the time required under any Applicable Law; and, except for taxes contested in good faith, has set up, or caused to be set up, an adequate reserve for the payment of all taxes required to be paid in respect of the period covered by such returns and has paid all instalments of income taxes when due.

(m) Outstanding Obligations

Except as described in Schedule 6.1(m) hereto and any amounts payable to the Shareholder, to the Parents or to any Restricted Subsidiary from time to time, there are no bonds, purchase money mortgages, debentures, security agreements, promissory notes, Capital Lease Obligations, (having a principal amount outstanding in excess of three-hundred thousand (\$300,000) dollars) conditional sales contracts (having a principal amount outstanding in excess of twenty-five thousand (\$25,000) dollars), or other evidences of secured indebtedness

outstanding affecting the Business or the property or assets of the Obligor other than the notes evidencing the Loan, the Security, and the Term Debenture. As of the Closing Date, (i) there is no intercorporate indebtedness of the Borrower to the Shareholder and/or either of the Parents other than the indebtedness evidenced by the Intercorporate Note and the Term Debenture, (ii) the Term Debenture has not been amended, (iii) the Intercorporate Note is unsecured; (iv) save and except for the amendment dated February 11, 2003, the Intercorporate Note has not been amended, and (v) as of December 31, 2003 the principal amount outstanding under the Intercorporate Note was \$60,530,420.

(n) Title to Assets

Each Obligor owns, possesses, and has good and marketable title to their respective undertaking, property and assets free and clear of any and all liens, claims or demands of any nature howsoever arising, except for the Security and the Permitted Encumbrances.

(o) Leased Property

Except for the leases described on Schedule 6.1(o) hereto, the Borrower is not a party to nor is bound by any lease or agreement in the nature of a lease or providing for an Operating Lease Obligation, whether as lessor or lessee in which the annual rental exceeds two-hundred thousand (\$200,000) dollars. Each lease described on Schedule 6.1(o) is in good standing and in full force and effect without amendment thereto. No Obligor is in breach of any of the material covenants, conditions or agreements contained in each such lease. Except as noted on Schedule 6.1(o), the entering into of this Loan Agreement, the granting of the Security and the performance of the obligations hereunder and thereunder will not result in the violation of any of the terms of such leases and agreements.

(p) Real Property

No Obligor has entered into or is bound by any agreement to acquire real property. No Obligor is the owner in fee simple of real property. The uses to which the real property owned or subject to the lease(s) described on Schedule 6.1(o) have been put are not in breach of any statutes, by-laws, zoning by-laws, ordinances, regulations, covenants, restrictions or official plans, other than minor variances or breaches of which the Borrower is not aware and which do not materially affect the conduct of the Business. Neither Obligor is currently under notice from any Governmental Authority or any landlord in respect of any such breaches or breaches of the leases. There are no outstanding work orders relating to the properties owned or subject to the leases or agreements described on Schedule 6.1(o) hereto from or required by any police or fire department, sanitation, health, environmental or factory authorities or from any other federal, provincial or municipal authority or any matters under discussion with any such departmental authorities relating to work orders and no Obligor has received notice of any such work orders.

(q) Insurance

The property and undertaking of the Obligors is insured against loss or damage and attached hereto as Schedule 6.1(q) is a true and complete schedule setting out particulars of all such insurance policies. No Obligor is in default with respect to any of the provisions contained in any such insurance policy and nor has it failed to give any notice or present any claim under any insurance policy in a due and timely fashion.

(r) Guarantees

Except as listed on Schedule 6.1(r), no Obligor is a party to or bound by any agreement of guarantee, indemnification, assumption, endorsement or any other like commitment of the obligations, liabilities (contingent or otherwise) or indebtedness of any other Person.

(s) Securities

No Person has any agreement or option or any right or privilege (whether by law, pre-emptive or contractual), capable of becoming an agreement, including convertible securities, warrants or convertible obligations of any nature, for the purchase of any properties or assets of an Obligor (except sales of inventory in the ordinary course of business) or for the purchase, subscription, allotment or issuance of any of the unissued shares in the capital of any Obligor.

(t) Loan Proceeds

The proceeds of the Loan shall be used for general corporate purposes.

(u) Intellectual Property

Other than applications for patents and trade marks which are proceeding and in respect of which no Obligor has reason to believe that such applications will be unsuccessful or opposed, each Obligor has taken or caused to be taken all necessary action to secure all rights to the licenses, trademarks and patents necessary or desirable in connection with its business, including those set out in Schedule 6.1(u), and such licences, trade marks and patents, together with all other disclosures on Schedule 6.1(u), constitute all of the intellectual property necessary to enable it to carry on or as is otherwise desirable in connection with its business as presently carried on, without interference from or fear of any claim whatsoever by any Person. There is no intellectual property necessary or useful to the Business, other than that disclosed in Schedule 6.1(u), that is owned by any Person, other than the Borrower. No Obligor is in breach, in any material respect, of any Material IP Agreement (as defined in Section 8.2(q)) or has received any notice of termination in respect of any Material IP Agreement. No Obligor has any current plans to pursue any course of action which might in any way whatsoever result in a breach of any Material IP Agreement.

(v) Material /Facts

All information furnished in writing by it to the Agent for the purposes of or in connection with this Agreement or any transaction contemplated hereby does not, and all such information hereafter furnished in writing by the Obligors to the Agents or the Lenders will not, contain any inaccurate statement of a material fact. To the knowledge of the Borrower, all material information relating to the Business has been provided to the Agent.

(w) Assets in Good Condition

All of the assets and properties of the Obligors, that are necessary for the operation of the Business are in good working condition, consistent with prudent business practice and industry standards, ordinary wear and tear excepted, and are able to serve the function for which they are currently being used and are subject to the Security. There are no tangible assets, including real or personal property, necessary for or to the on-going operation of the Business which are not owned by the Borrower (or leased as set out on Schedule 6.1(o)) and charged pursuant to the Security.

(x) Inventories

All inventories are of currently merchantable quality and do not include any items which are no longer useable or saleable for any reason (including, without limitation, as a consequence of changes of advertising claims, recipes or physical deterioration) that is not fully provided for.

(y) No Default

No Default or Event of Default has occurred and is continuing or will occur as a result of the completion of the transactions contemplated by this Agreement.

(z) No Restriction on Business

Except for the contracts described on Schedule 6.1(z), no Obligor is a party to and no property of the Obligors is subject to or bound by any exclusive purchase contract, futures contract, covenant not to compete, take or pay or other agreement which restricts its ability to conduct its business and which is having or may reasonably be expected to have a Material Adverse Effect.

(aa) No Excluded Assets

There are no assets, including real, personal and intangible property, necessary to or useful in a material respect in connection with the on-going operation of the Business which are not owned or leased by or licensed to the Obligors and in which the interest of the Obligors therein is not charged pursuant to the Security.

(bb) Exclusive Contracts

No Obligor is party to nor is any of its property subject to or bound by any Material Contract, the substance of which may involve without limitation, an exclusive purchase contract, a futures contract, a covenant not to compete, take or pay or other agreement, or which restricts its ability to conduct business in the ordinary course and which is having or may reasonably be expected to have a Material Adverse Effect on the condition or business of either of them.

(cc) Labour Matters

Except as set forth in Schedule 6.1(cc), there are no strikes or other labour disputes against any Obligor that are pending or threatened. All payments due from the Obligors on account of workers compensation, Canada Pension Plan, Quebec Pension Plan, employee health plans, social security and insurance of every kind and employee income tax source deductions and vacation pay have been paid. Except as set forth in Schedule 6.1(cc), no Obligor has any obligation under any collective bargaining agreement. To the knowledge of the Borrower, there is no organizing activity involving any Obligor by any labour union or group of employees. Except as set forth in Schedule 6.1(cc), no labour organization or group of employees has made a pending demand for recognition and there are no complaints or charges against any Obligor pending or threatened to be filed with any Governmental Authority or arbitrator based on, arising out of, in connection with, or otherwise relating to the employment or termination of employment by the Borrower of any individual. Hours worked by and payment made to employees of the Obligors have not been in violation of any Laws. The Obligors are in material compliance with the terms and conditions of all collective bargaining agreements, consulting agreements, management agreements and employee agreements and all other labour agreements. Except for the benefit plans as set forth on Schedule 6.1(cc), there are no pension plans, employee benefit plans, written employment agreements with respect to which any Obligor is bound.

(dd) No Hazardous Substances

Other than as disclosed to the Agent in the documents delivered to the Agent relating to the environmental audits and site reconnaissances carried out prior to the date hereof.

- (i) no claims, demands, liabilities, investigations, litigation, administrative proceedings, whether pending or threatened, or judgments or orders relating to any Environmental Laws, including any law relating to Hazardous Substances, have been asserted or, to the best of its knowledge, threatened against any Obligor or in relation to any of its property, currently or formerly owned, leased or operated. The Obligors currently operate the Business in compliance in all material respects with all Environmental Laws; and

(ii) no Hazardous Substances (including asbestos and urea formaldehyde foam) are or have been stored by the Obligors or were otherwise located by it in violation in any material respect of any Environmental Law and no underground storage tanks are located by it on any real property owned or leased by any Obligor and no part of any real property or ground water in, on or under such property is presently contaminated by any hazardous substances or materials caused by it. No Hazardous Substances are stored or located in violation of any Environmental Law and no underground storage tanks are located on any real property currently leased or used by any Obligor and no part of any real property or ground water in, on or under such property or any property adjacent to its property, is presently contaminated by any Hazardous Substances. The Obligors have and maintain all material permits, licences, authorizations, and other documentation required by all applicable environmental laws required to carry on the Business.

(ee) Term Debenture

The Term Debenture is in good standing and the Borrower has not committed any event of default thereunder.

6.2 Survival of Representations and Warranties

Each of the representations and warranties contained in Section 6.1 shall survive the closing of this Agreement until the full repayment of the Loan.

ARTICLE 7 **CONDITIONS OF CLOSING**

7.1 Closing Conditions

The Lenders shall not be called upon to make any Advances if the Agent and the Lenders shall not have received on or prior to the Closing Date, in form and content and dated as of a date acceptable to the Agent, the following documents, or the Agent and the Lenders shall not otherwise be satisfied with respect to any of the following matters:

(a) Security

The Loan Documents and the Security referred to in Section 5.1 hereof shall have been duly authorized, executed, delivered to the Agent and registered wheresoever required to protect and preserve the charges contained therein and registration particulars shall have been provided to counsel for the Agent.

(b) Corporate Proceedings

Certified copies of all proceedings by the directors and, if applicable, by the shareholders of the Obligors where required, necessary to authorize the execution and delivery of this Agreement and, the Security and performance of their respective provisions shall have been executed and delivered to the Agent.

(c) Constatting Documents

Certified copies of all constating documents of the Obligors shall have been executed and delivered to the Agent.

(d) Opinion of Counsel

A corporate opinion from Goodmans LLP, counsel for the Obligors, in form and substance satisfactory to the Agent and its counsel shall have been executed and delivered to the Agent and its counsel. A corporate opinion from counsel for the Parents, in form and substance satisfactory to the Agent and its counsel shall have been executed and delivered.

(e) Compliance with Agreement

The Obligors shall be in compliance with all of the terms, covenants and conditions of this Agreement which are binding upon them and an Event of Default shall not have occurred.

(f) Report on Loan Documents

The Agent and the Lenders shall have received a satisfactory opinion from its counsel as to the form, content, and legal sufficiency of the Loan Documents.

(g) Forecasts

The Lenders shall be satisfied with the Borrower's Annual Business Plan for 2004.

(h) Landlord Waivers

Landlord waiver agreements from landlords, in a form satisfactory to the Agent shall have been executed by the landlords of real property leased to the Obligors at the following premises: 151 Front Street West, Toronto; 555 West Hastings Street, Vancouver; 605 1st Street SW, Calgary; 740 Rue Notre Dame, Montreal and 5343 Dundas Street West, Suite 400, Toronto, and copies of each shall have been delivered to the Agent.

(i) Litigation

Except as set out in Schedule 7.1(i), there shall be no action or proceeding or investigation pending or threatened against any Obligor which would, if successful, result in the payment by any Obligor of more than one million (\$1,000,000) dollars or have a Material Adverse Effect upon the ability of any Obligor to perform its respective obligations under this Agreement.

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- (j) **No Substantial Damage**
There shall have been no substantial damage by fire or other hazard to the property or assets of any Obligor prior to the Closing Date.
- (k) **No Material Adverse Change**
There shall have been no Material Adverse Change since February 29, 2004 in the affairs, assets, liabilities, financial condition or prospects of the Business or of the Obligors or the Parents.
- (l) **Governmental Approvals**
Any and all government and/or regulatory approvals shall have been obtained, if necessary, to the execution of this Agreement, the Security and satisfactory evidence of same delivered to the Agent for review and approval.
- (m) **Financial Position**
The Lenders shall have made such investigations of the financial position of the Obligors and the Parents and their respective property and assets and such other matters relating to the Obligors and the Parents and the Business so as to have satisfied itself as to the current financial position and future profitability of the Business and other matters pertaining to the Obligors and the Parents having a bearing on the Loan and the Security.
- (n) **Insurance**
The Agent shall have received certified copies of insurance policies required to be maintained pursuant to this Agreement on all assets of the Obligors; and the Lender shall be named on such policies as a loss payee as its interest may appear.
- (o) **Textron**
All security interests granted by the Obligors to Textron Financial Canada Limited shall be discharged and all obligations of the Obligors to Textron Financial Canada Limited shall have been satisfied.
- (p) **Intellectual Property Licences**
The Lender shall have received an agreement in its favour from Primus Telecommunications, Inc. in form and substance satisfactory to the Agent which ensures that the Lenders and any assignees of the Security and any purchasers of the collateral secured thereby have the right to continue to use the Primus trademarks in Canada.

(q) Stand-by Fees

Standby Fees due pursuant to the Loan Agreement for the period ending on the Closing Date are paid in full. For greater certainty the Lenders acknowledge that no standby fees are payable by the Borrower for any period after the Closing Date.

(r) Letter of Credit

The Letter of Credit in the principal amount of \$2,000,000 issued at the request of the Borrower by Manulife Bank of Canada shall be returned for cancellation.

7.2 Conditions for Subsequent Advances

The Lenders shall not be called upon to make any Advances following the Closing Date if the Agent and the Lenders shall have not received in form and content acceptable to the Agent on the date of each subsequent Advance the following documents, or the Agent and the Lenders shall not be satisfied with respect of any of the following matters:

(a) Representations and Warranties

A certificate of the president of each Obligor confirming the representations and warranties set out in Article 6 hereof shall be true and correct as of the date of such Advance.

(b) No Default

The Obligors shall be in compliance with all of the terms, covenants and conditions of this agreement which are binding upon them and an Event of Default shall not have occurred and be continuing.

7.3 Material Inaccuracy

If at any time prior to the Closing Date or the date of any other Advance, the Lenders or their professional advisors shall have been apprised of or shall have determined on their own behalf that there is a material inaccuracy in written information given by the Borrower, or any Obligor or other persons acting for or on behalf of the Borrower or any Obligor, to the Lenders or others on their behalf concerning the Borrower or the Business, the Lenders, acting reasonably, may terminate this Agreement by written notice to the Borrower, and all monies advanced hereunder, if any, prior to that time shall, together with all other amounts then due to the Lenders on an acceleration of the Loan, be repayable forthwith and the Borrower shall pay all reasonable legal fees incurred by the Lender until the date of repayment.

7.4 Conditions Solely for Lenders' Benefit

All conditions precedent to the Loan set forth in Section 7.1 and Section 7.2 are imposed solely and exclusively for the benefit of the Lenders and their successors and assigns, and no other Person is entitled to require satisfaction of such conditions. Notwithstanding the non-fulfilment of any condition referred to above, the Lenders may, in their sole and unfettered discretion, make Advances of the Loan, and the making of the Advances by the Lenders, either before or after the fulfilment of all applicable conditions, will not constitute an approval, acceptance or waiver by the Lenders of any other condition or Default.

ARTICLE 8
COVENANTS

8.1 Positive Covenants

The Obligors jointly and severally covenant and agree that so long as any portion of the Loan shall be outstanding, the Borrower shall, unless varied or waived in whole or in part from time to time in writing by the Lenders:

- (a) **Payment**
Punctually make or cause to be made all payments pursuant to Article 2, Article 3 and Article 4 hereof and all other sums required to be paid by it hereunder, on the dates, at the places and in the manner mentioned herein.
- (b) **Business Licences**
Do or cause to be done all things necessary to keep in full force and effect all contracts, rights, franchises, leases, licenses and qualifications required for the Borrower to carry on the Business in each jurisdiction in which it carries on business or owns property.
- (c) **Comply with Security**
Comply at all times with all of the terms, provisions and obligations of the Loan Documents.
- (d) **Comply with Agreements**
Comply with all of the terms, provisions and obligations contained in the Term Debenture, the Capital Lease Obligations and the Operating Lease Obligations and do, observe and perform or cause to be done, observed or performed all of its obligations under all agreements, leases, licences, contracts and indentures and do, observe and perform or cause to be done, observed and performed all matters necessary to be done, observed or performed whether under Applicable Law or otherwise, in each case where non-compliance would have a Material Adverse Effect.
- (e) **Maintain Authority**
Continue to have good right and lawful authority to mortgage and charge its undertaking, properties, rights and assets as provided in and by this Agreement.

(f) Business Operations

Carry on and conduct the Business (including the collection of accounts receivable on a timely basis) in a proper and efficient manner and keep or cause to be kept proper books of record and account and make or cause to be made therein entries properly recording all dealings and transactions in relation to its business all in accordance with GAAP, and at all reasonable times furnish or cause to be furnished to the Lenders or its duly authorized agent or attorney such information relating to its business as the Lenders may reasonably require.

(g) Employee Benefit Plans

Pay and/or remit all employee and employer contributions under any pension plan and employee benefit plan operated or maintained by each Obligor and, in all other material respects, remain in compliance with the terms thereof in accordance with such terms and applicable regulatory requirements and the rules of such plans.

(h) Taxes

Pay or cause to be paid all rents, taxes, tax instalments, rates, levies or assessments, ordinary or extraordinary, government fees, dues or other obligations to pay money validly levied, assessed or imposed upon the Obligors or upon their respective undertaking, property and assets or any part thereof as and when the same become due and payable, save and except when and so long as the validity of any such rents, taxes, rates, levies, assessments, fees, dues or obligations to pay is in good faith contested by the Borrower, as the case may be, provided that in such case the Borrower shall satisfy the Lenders, and, if reasonably required, furnish security satisfactory to the Lenders, that any such contestation will involve no forfeiture of any part of the property or assets of the Borrower, and exhibit to the Lenders, when required, the receipts and vouchers establishing such payment and duly observe and conform to all requirements of any governmental or municipal authority relative to any of its undertaking, property and assets and all covenants, terms and conditions upon or under which any of its undertaking, property and assets are held.

(i) Maintain Security

Fully and effectually maintain and keep maintained the Security as valid and effective security at all times.

(j) Obtain Discharge

Obtain and register discharges of all security granted to third parties other than the Lenders or the Agent and to lessors under Capital Lease Obligations and Permitted Encumbrances as soon as possible after the obligations secured by such security are discharged and, in any event, no later than 3 months following the payment in full of all amounts owing pursuant to such Capital Lease Obligations and Permitted Encumbrances.

(k) Financial Statements

Furnish to the Agent and the Lenders:

- (i) **Monthly Statements** – as soon as possible and, in any event, within thirty (30) days after the end of each month a monthly income statement and a calculation of EBITDA for the prior month;
- (ii) **Quarterly Statements** - as soon as possible and, in any event, within forty-five (45) days after the end of each quarter a quarterly and fiscal year to date financial report consisting of consolidated and, if applicable unconsolidated unaudited financial statements of the Borrower and the Shareholder and any subsidiaries of the Borrower conducting any portion of its business in Canada, consisting of a balance sheet, a statement of retained earnings, a statement of income and a statement of changes in financial position on a consolidated basis, along with a comparison to budget and the previous fiscal year and comments on any significant variances from budget and a calculation of EBITDA for each month during the quarter;
- (iii) **Annual Financial Statements** - as soon as practicable and in any event within ninety (90) days after the end of each fiscal year of the Borrower, the audited consolidated financial statements of the Borrower and, if applicable, the unaudited non-consolidated financial statements of the Borrower and any subsidiaries of the Borrower conducting any portion of its business in Canada, and in each case, consisting of a balance sheet, a statement of retained earnings, a statement of income and a statement of changes in financial position as at the end of and for the period commencing with the end of the previous fiscal year and ending with the end of the current fiscal year, setting forth, in each case, in comparative form, the figures for the previous fiscal year;
- (iv) **Quarterly Compliance Certificates** - within forty-five (45) days of each quarter (commencing with the quarter ending March 31, 2004), a compliance certificate in the form attached as part of Schedule 8.1(k)(iv) hereto signed by the president and the vice-president, finance of the Borrower or any other senior officer of the Borrower acceptable to the Lender certifying, among other things, in their capacity as officers, compliance with all of the financial covenants contained herein and in the Senior Facility Agreement and setting forth in reasonable detail the calculations set forth in Sections 8.1(t), (u), (v), (w) and 8.2(z) hereof; or if not in compliance, setting forth in reasonable detail the reasons for such non-compliance and the steps that will be taken to correct it;
- (v) **Business plan and budget** - as soon as practicable and, in any event not later than thirty (30) days prior to the end of each fiscal year an Annual Business Plan and a capital and operating budget for each of the twelve

(12) months in the forthcoming fiscal year with respect to the (A) balance sheet, and (B) statement of earnings, together with such other information as may be reasonably requested by the Lender and (C) statement of changes in financial position; and

(vi) **Other information** - such other information respecting the affairs and property of the Obligors and the Business as may reasonably be requested by the Lenders.

(1) Leases

Pay all rents and do, observe and perform in all material respects all other obligations and all matters and things that are necessary or expedient to be done, observed or performed under or by virtue of any leases or licences forming part of the assets, property, undertaking of each Obligor, including all leases described in Schedule 6.1(o) hereof;

(m) Corporate Existences

At all times maintain their corporate existence and diligently preserve all of the rights, powers, privileges and goodwill owned by them.

(n) Inspections

Permit the authorized agents of the Agent and the Lenders to inspect from time to time the contracts, facilities, property, plant, books and records of each Obligor at all times upon reasonable notice whether or not such times are during normal business hours so as not to unduly interfere with the Business.

(o) Insurance

Insure and keep insured with insurers acceptable to the Agent all buildings, plant, structures, machinery, equipment, apparatus, materials and supplies of the Obligors as are customarily insured by companies operating or owning similar properties against loss or damage by such perils as are customarily insured against by companies carrying on a similar business or operating or owning similar properties and maintain fire and extended coverage, third party liability, and business interruption insurance in amounts satisfactory to the Agent; to obtain insurance reviews on an annual basis at the expense of the Borrower, from Intech or another consultant satisfactory to the Agent and to update insurance coverages in accordance with such consultant's reports; and in respect to all such policies the Lenders shall be named as loss payees as its interests may appear; and on a timely basis pay all premiums and all other sums of money payable for maintaining such insurance and give to the Agent evidence of such insurance, the payment of such premiums and such assignments to the Lenders at such times as the compliance certificates to be delivered to the Agent and the Lenders pursuant to Section 8.1(k) are due, and deliver an acknowledgement from the insurer that such policies may not be terminated or cancelled without at least thirty (30) days' prior

notice to the Agent; provided that, if premiums on the insurance required to be maintained by the Borrower pursuant to this agreement are not paid, then such premiums may be paid by the Lender and treated in all respects as part of the principal monies secured by the Loan and shall bear interest at the Loan Interest Rate; to complete all proof of loss forms in connection with any loss in such manner and at such time or times as the Agent requires.

(p) Repair

Maintain and keep all property and assets owned or held under lease by the Obligors and used in the Business in good repair, working order and condition, reasonable wear and tear excepted, and from time to time make all needed repairs, renewals and replacements, and defend the same against all claims to preserve the Security, continue to own, and will continue to be lawfully in possession of or have a right of possession to all of its property and assets from time to time and will continue to have good, right and lawful authority to mortgage, pledge and charge its property and assets as provided for herein.

(q) Government Approvals

Comply in all material respects with all Applicable Laws and obtain and maintain in good standing all leases, licenses, permits and approvals from any and all Governmental Authorities required from time to time with respect to carrying on the Business.

(r) Default

Notify the Lenders and the Agent immediately by telephone, and within five (5) Business Days thereof in writing, upon obtaining knowledge of:

- (i) any Event of Default hereunder; or
- (ii) any event which but for notice or lapse of time or both would be an Event of Default hereunder.

(s) Litigation

Give to the Agent and the Lenders notice, including reasonable particulars, of any action, suit or proceedings, to the knowledge of the Borrower, pending or threatened against or affecting an Obligor before any court or before any governmental department, commission or agency, or any arbitrator, in Canada or elsewhere, which:

- (i) could involve a claim for money damages exceeding one million (\$1,000,000) dollars (excluding any portion of such claim the payment of which would be covered by any insurance policy then in effect); or
- (ii) could result in any Material Adverse Effect.

- (t) **Minimum EBITDA**
Maintain EBITDA calculated on a consolidated basis of no less than four million (\$4,000,000) dollars per month measured at the end of each month commencing March 31, 2004 until the Loan is repaid in full.
- (u) **Leverage Ratio**
Maintain at all times a Leverage Ratio, calculated on a consolidated basis commencing March 31, 2004 until the Loan is repaid in full, of not more than 2:1 at the end of each quarter.
- (v) **Current Ratio**
Maintain at all times a Current Ratio, calculated on a consolidated basis, of no less than 0.75:1 at all times.
- (w) **Forecasted EBITDA**
Maintain at all times forecasted EBITDA of no less than forty-eight million (\$48,000,000) dollars calculated on a consolidated basis for the twelve month period ending on the anniversary of the date of calculation.
- (x) **Cash Balance**
Maintain at the end of each quarter a cash balance, consisting of Cash and Cash Equivalents of not less than five million (\$5,000,000) dollars.
- (y) **Environmental Laws**
Conduct its business so as to comply in all respects with all applicable Environmental Laws and regulations, including, without limitation, environmental, land use, occupational safety or health laws, rules, regulations, requirements or permits in all jurisdictions in which it is or may at any time be doing business, including without limitation, the *Canadian Environmental Protection Act* (Canada), the *Environmental Protection Act* (Ontario), the *Clean Air Act* (U.S.), the *Clean Water Act* (U.S.), the *Solid Waste Management Act* (U.S.), the *Occupational Safety and Health Act* (U.S.), the *Consumer Product Safety Act* (U.S.) and the *Hazardous Materials Transportation Act* (U.S.); provided however, that nothing contained in this subsection shall prevent the Borrower from contesting, in good faith by appropriate legal proceedings, any such law, regulation, interpretation thereof or application thereof, provided further, that the Borrower shall comply with the order of any court or other governmental body of applicable jurisdiction relating to such laws unless it shall currently be prosecuting an appeal or proceedings for review and shall have secured a stay of enforcement or execution or other arrangement postponing enforcement or execution pending such appeal or proceedings for review.

(z) Environmental claim

Notify the Agent and the Lenders as soon as practicable and in any event within five (5) days of receipt of any notice in connection therewith, if any Obligor:

- (i) receives notice of any violation or potential violation of any Environmental Laws which may have occurred or been committed or is about to occur or be committed;
- (ii) receives notice that any administrative or judicial complaint or order has been issued or filed or is about to be issued or filed against an Obligor alleging violations of any Environmental Laws or requiring the taking of any action in connection with any Hazardous Substance;
- (iii) learns of the enactment of any Environmental Laws or the issuance of any environmental orders which may have a Material Adverse Effect on the Business; or
- (iv) knows that any Hazardous Substance has been brought onto any part of the premises occupied by an Obligor in violation of Environmental Laws or that there is any actual, threatened or potential release of any Hazardous Substance on, from, in or under any part of such premises.

(aa) Hazardous Substances Indemnity

Shall, and shall cause each Obligor to, at all times defend, indemnify and hold harmless the Agent and the Lenders and their respective directors, officers, employees and agents, against any and all claims, liabilities, suits, actions, debts, damages, costs, losses, obligations, judgments, charges and expenses, of any nature whatsoever suffered or incurred by the Agent and the Lenders, whether upon realization of the Security, or as a lender, or as successor to or assignee of any right or interest of any Obligor, or as a result of any order, investigation or action by any governmental authority relating to any business or property, or as mortgagee in possession or successor or successor-in-interest of any Obligor, or as a result of any taking of possession of all or any real property by foreclosure, power of sale, deed in lieu of foreclosure or by any other means relating to any Obligor under or on account of any applicable Environmental Law (including without limitation the assertion of any Lien thereunder) with respect to:

- (i) the Release of a Hazardous Substance, the threat of the Release of any Hazardous Substance, or the presence of any Hazardous Substance affecting the real or personal property interest of any Obligor (other than the presence of a Hazardous Substance that is in compliance with Environmental Law), whether or not the Hazardous Substance originates or emanates from the property of any Obligor or any contiguous real property or personal property located thereon, including any loss of value of such property as a result of any of the foregoing;

- (ii) any costs of removal or remedial action incurred by any governmental authority or any costs incurred by any other Person or damages from injury to, destruction of, or loss of natural resources in relation to, the real property or personal property of the Obligors or any contiguous real property or personal property located thereon, including reasonable costs of assessing such injury, destruction or loss incurred pursuant to Environmental Law;
 - (iii) liability for personal injury or property damage arising by reason of any civil law offences or quasi-criminal offences or under any statutory law or common tort law theory including, without limitation, damages assessed for the maintenance of a public or private nuisance or for the carrying on of a dangerous activity at, near or with respect to the real or personal property of any Obligor or elsewhere; and/or
 - (iv) any other matter relating to the environment and Environmental Law affecting the property or the operations and activities of any Obligor within the jurisdiction of any Governmental Authority.
- (bb) Further Assurances
- At any and all times and at its expense, do, execute, acknowledge and deliver or will cause to be done, executed, acknowledged and delivered all further acts, deeds, conveyances, mortgages, transfers and assurances in law as the Lenders shall reasonably require to carry out the intent of this Agreement.
- (cc) Parent and Shareholder Distributions
- Notify the Lender contemporaneously with the making of any distributions to the Parents or the Shareholder permitted pursuant to Sections 8.2(h) and 8.2(k) hereof if the aggregate of all such distributions exceed forty-eight million (\$48,000,000) dollars in any rolling twelve month period calculated as at the date of the distribution.
- (dd) Forward Subscription Agreement
- Enforce on a timely basis all of the obligations of the Immediate Parent pursuant to the Forward Subscription Agreement.
- (ee) Globility Guarantee and Security Agreement
- Perform on a timely basis all of the covenants and honor all obligations contained in the Globility Guarantee and Security Agreement.

8.2 Negative Covenants

The Obligors jointly and severally covenant and agree that so long as any portion of the Loan shall be outstanding, neither the Borrower, nor where applicable, the Shareholder, shall, without the prior written consent of the Lenders:

(a) Representations and Warranties

Cause or permit to exist any facts or things which would render untrue at any time during which this Agreement is in effect, any representation or warranty set forth in Article 6 hereof as at the date of any Advance.

(b) Reorganization

Enter into any transaction that changes the current corporate structure of the Obligors (whether by way of reconstruction, reorganization, consolidation, amalgamation, merger, transfer, sale, lease or otherwise) or cause the existing Business (other than that portion currently carried on by the Borrower's subsidiaries) to be conducted by any Subsidiary or Person controlled by the Borrower (including the Borrower's existing subsidiaries).

(c) Articles of Amendment

Effect any change to the constating documents of any Obligor.

(d) Fiscal Year

Change its fiscal year end from December 31.

(e) Change of Name

Change its name.

(f) Business Plan

Amend or deviate in any material manner from the Annual Business Plan provided to the Lender.

(g) Liens

Except for Permitted Encumbrances, as otherwise permitted herein or as provided for in the Senior Facility Agreement, create, issue, incur or suffer to exist any Lien on all or any part of the property, assets or undertaking of any Obligor, nor dispose of all or any part of the assets subject to the Security if the proceeds of such disposition exceed one hundred thousand (\$100,000) dollars in any single instance with an aggregate limit of one million (\$1,000,000) dollars, out of the ordinary course of business without the prior written approval of the Lenders, provided that the Lenders shall provide partial releases, as are required in connection with the deminimus exceptions outlined above.

- (h) Loans
Except as otherwise permitted herein, lend money to or invest money in any Person, whether by loan, acquisition of shares, acquisition of debt obligations, incorporation or in any other manner whatsoever or guarantee, endorse or otherwise become surety for or upon the obligations of others except by endorsement of negotiable instruments for deposit or collection in the ordinary course of the Business in the aggregate in excess of one million (\$1,000,000) dollars, provided however that nothing herein shall prevent the making of advances to the Shareholder or the Parents if at the time of such advance there shall be no default under any of the financial covenants contained in subsections 8.1(t), 8.1(u), 8.1(v), 8.1(w), 8.1(x) or 8.2(z).
- (i) Disposal of Assets
Except as otherwise permitted in Section 8.4 hereof, attempt to sell or sell or otherwise dispose of all or substantially all or any portion of the property necessary to conduct the Business, or the assets or undertaking of each Obligor by conveyance, transfer or lease or sale in bulk.
- (j) Capital Expenditures
Incur or make commitments to incur Capital Expenditures in excess of twenty-five million (\$25,000,000) dollars in any fiscal year (other than as permitted pursuant to Section 8.1(k) hereof, provided that after the occurrence of a Default or Event of Default which is continuing or to the extent a Default or Event of Default would occur as a result thereof, no Capital Expenditures in excess of one-hundred thousand (\$100,000) dollars shall be permitted without the consent of the Lenders.
- (k) Acquisitions
All or substantially all the acquired assets or shares of any Person, or a division of any Person where total acquisition costs exceed five million (\$5,000,000) dollars without first obtaining the written consent of the Lender.
- (l) Deleted Intentionally.
- (m) Expansion
Carry on any business other than the Business, reasonable expansions thereof, make acquisitions (other than as permitted pursuant to Section 8.2(k) hereof), or change in any manner, the nature of the Business.

(n) Additional Debt

Except as otherwise permitted herein or with the written consent of the Lenders, incur any additional debt for borrowed money or Operating Lease Obligations (including rentals of new locations for the Business in excess of two-hundred thousand (\$200,000) dollars per annum per location but not including renewals at market rates), nor enter into any Capital Lease Obligations nor assume, directly or indirectly, any additional indebtedness for borrowed money, except:

- (i) loans from direct or indirect shareholders or any Restricted Subsidiary;
- (ii) any subordinated shareholders' loans and any other subordinated debt on terms approved by the Agent, provided that the Agent and the Lenders have received any such postponement and subordination agreements from such lenders as the Agent and the Lenders reasonably require;
- (iii) other indebtedness for Capital Lease Obligations not exceeding at any one time two million (\$2,000,000) dollars in the aggregate;
- (iv) the assumption of indebtedness in relation to an acquisition permitted pursuant to Section 8.2(k) hereof; and
- (v) indebtedness not exceeding two million (\$2,000,000) dollars incurred for the purpose of completing an acquisition permitted pursuant to section 8.2(k) hereof.

(o) Non-Arm's Length Transactions

Except as otherwise permitted herein or for bona fide commercial transactions with respect to the CLEC which have commercial value of not more than five million (\$5,000,000) dollars which transactions have been approved by all shareholders of CLEC and ongoing service contracts between CLEC and the Borrower at prices not less advantageous to the Borrower than prices for similar services from arm's length third parties and management fees set out on Schedule 8.2(o), make any loan to, or enter into any contracts or other arrangements (written or oral) material to its business or operations with, any of the officers, directors or shareholders of either Obligor or any member of their immediate families, or any firm or corporation in which such persons have an ownership interest, or any Affiliate of the foregoing or engage in any business relationship with respect to the sale of products produced or services provided by or to the Business to or from any Shareholder.

(p) Sale of Shares

Sell or permit a sale or issuance of shares, options or other securities of the Borrower or any subsidiary thereof.

- (q) Intellectual Property
Permit any licenses, trademarks or patents of any Obligor to fall into default prior to the expiry thereof where same may be expected to have a Material Adverse Effect, or commit any breach (or do any act or expend any funds in furtherance of any course of action which may result in a breach) of any patent, trademark or other intellectual licencing arrangement necessary or material to the Business (collectively, the “**Material IP Agreements**”); provided that the Borrower shall seek the Agent’s prior written consent on behalf of the Lenders to any course of action that may permit any termination of such rights under the Material IP Agreements, or result in any adverse claim against the Borrower thereunder or in connection therewith, and in connection with any proposed course of action, the Borrower shall provide the Lenders with all such opinions as the Lenders shall, acting reasonably, require in connection therewith in order to permit the Lenders to make their own determination (with the assistance of counsel) as to the propriety of the Borrower’s proposed course of action.
- (r) Material Contracts
Enter into, revise, supplement, restate, replace or terminate any Material Contract, except in the ordinary course of business, or assign its interest in any Material Contract.
- (s) Auditors
Change its auditors from Deloitte & Touche LLP or another accounting firm acceptable to the Lenders, acting reasonably.
- (t) Articles
Amend its Articles of Incorporation.
- (u) Change of Control
Permit a change of control of the Borrower or the Shareholder.
- (v) Distributions, Dividends, Loan Repayments to Affiliates
Except as otherwise permitted herein, make any loan repayments, or payments of interest to Affiliates, declare any dividends or otherwise make any distributions if after the making of such payment or distribution any Obligor would be in Default of any terms of this Agreement.
- (w) Negative Pledge
Except as set out in Section 8.4 hereof, the Shareholder shall not assign nor pledge, encumber or in any way permit a Lien to attach to the issued and outstanding shares of the Borrower.

- (x) **Intercorporate Note**
Transfer, assign, pledge, encumber or in any way permit a Lien to attach to the Intercorporate Note except for a transfer, assignment, pledge, encumbrance or Lien to or in favour of the Ultimate Parent or any Restricted Subsidiary.
- (y) **Amendments**
Modify, amend supplement or in any way alter the terms of the Term Debenture, the Forward Subscription Agreement or the Intercorporate Note.
- (z) **Margin**
Permit the aggregate of (i) the amount of the Loan outstanding and (ii) three million (\$3,000,000) dollars to exceed the aggregate of:
 - (i) sixty-five (65%) percent of accounts receivable from customers which are less than ninety (90) days old and unbilled charges for usage consumed or utilized by customers during the prior forty-five (45) days of Primus (which for greater certainty shall not include any amounts owing to Primus from any Affiliate of Primus or CLEC); and
 - (ii) twenty-five million (\$25,000,000) dollars.

8.3 Agent Entitled to Perform Covenants.

If any Obligor fails to perform any covenant on its part to be performed hereunder, the Agent on behalf of the Lenders may in its sole and unfettered discretion perform any of such covenants capable of being performed by it and, if any such covenant requires the payment or expenditure of money, the Agent on behalf of the Lenders may make payments or expenditures with its own funds, or with money borrowed by or advanced to it for such purpose, but shall be under no obligation to do so; and all sums so expended or advanced shall be at once payable by the Borrower on demand and form part of the Indebtedness and shall bear interest at the combined rate of interest set out in Sections 3.1 and 3.2 until paid, and shall be payable out of any funds coming into the possession of the Agent and/or the Lenders in priority to the Indebtedness secured hereby; provided, however, that no such performance or payment shall be deemed to relieve the Borrower from any default or breach hereunder.

8.4 Certain Permitted Transactions.

Notwithstanding anything to the contrary set forth in this Agreement, any other Loan Document or any agreement executed in connection herewith or therewith, until such time as an event of default shall have occurred as a result of a default under any financial covenant contained in clauses (t), (u), (v), (w) or (x) of Section 8.1 or subsection (z) of Section 8.2 hereof or an event of default as a result of a failure to pay principal or interest to the Lenders when due hereunder, nothing contained in this Agreement, any other Loan Document, or any agreement executed in connection herewith or therewith shall impose any encumbrance or restriction of any kind on the ability of any Borrower, either Parent or any Restricted Subsidiary to (i) pay dividends or make any other distributions permitted by applicable law on its capital stock, (ii) pay any indebtedness owed to either Parent or any Restricted Subsidiary, (iii) make loans or advances to either Parent or any Restricted Subsidiary, or (iv) transfer to either Parent or to any Restricted Subsidiary any of its property or assets that do not secure the Loan.

ARTICLE 9
SURVIVAL OF REPRESENTATIONS AND WARRANTIES

9.1 Survival.

All representations, warranties, covenants and agreements made herein and any certificate, opinion or other document delivered by or on behalf of the Obligors shall conclusively be deemed to have been relied upon by the Agent and the Lenders, notwithstanding any prior or subsequent investigation by the Agent and the Lenders and shall survive the making of all advances and the fulfilment of all other transactions and deliveries contemplated hereunder, all of which shall continue in full force and effect so long as any amount of principal or interest under the Loan remains outstanding and unpaid. All statements contained in any certificate or other document delivered to the Agent and Lenders under this Agreement or in connection with any of the transactions contemplated hereunder shall be deemed to be representations and warranties by the party making the same.

ARTICLE 10
EVENTS OF DEFAULT

10.1 Default

It shall be an Event of Default (in each case, a "Default") upon the happening of any one or more of the following events:

- (a) **Payment Default**
The Borrower fails to pay any instalment of interest or principal or other amount hereunder when due, with or without demand therefor having been made by or on behalf of the Lender.
- (b) **Financial Covenants**
The Borrower fails to be in compliance with any of the covenants contained in Sections 8.1(t), 8.1(u), 8.1(v), 8.1(w), 8.1(x) or Section 8.2(z).
- (c) **Security or Covenant Default**
The Borrower or any subsidiary fails to perform or be in compliance with any of the other terms or covenants of this Agreement or of any document constituting the Security and such failure or non-compliance continues unremedied for a period of ten (10) days after written notice thereof shall have been given by the Agent to the Borrower.

(d) Other Borrower Payment Obligations

The Borrower fails to pay, within ten (10) days of the date such payment is due, any principal or interest in respect of the the Capital Lease Obligations, whether or not such obligation is declared to be due and payable prior to the express maturity thereof, provided however that the failure to pay any disputed portion of any Capital Lease Obligation in the context of a bona fide dispute with the lessor under any applicable capital lease shall not be an Event of Default under paragraph 10.1(d) hereof.

(e) Other Obligations

Any Obligor has committed an event of default as defined and contained in (i) the Globility Guarantee and Security Agreement (including the obligation to post cash collateral as set out therein), (ii) the Intercompany Note or any other indebtedness for borrowed monies owed to the Shareholder, any of the Parents or any subsidiary of any of them, (iii) any Capital Lease Obligation, Operating Lease Obligation or any conditional sales contract, or (iv) any instrument, indenture or document evidencing any of the above, or any other agreement for borrowed money and has failed to remedy the same within any curative period provided for therein and such event of default involves a payment obligation in excess of fifty thousand (\$50,000) dollars or has not been waived by the applicable lender or security holder, and such event of default is continuing.

(f) Parent Obligations

Any Parent commits an event of default (as such term is defined in the Indentures) with respect to any indebtedness under the Notes and any action is taken by a creditor to accelerate and enforce its rights with respect to such indebtedness.

(g) Liquidation

An order is made or a resolution is passed for the winding-up, dissolution or liquidation of any Obligor or if a petition is filed or other process taken diligently for the winding-up, dissolution or liquidation of any Obligor and such petition is not diligently disputed by the Obligor in good faith within ten (10) days of notification thereof.

(h) Insolvency

Any Obligor commits or threatens to commit an act of bankruptcy or becomes insolvent or goes into liquidation or makes a general assignment for the benefit of its creditors or otherwise acknowledges its insolvency or if a bankruptcy petition is filed or presented against any Obligor and is not diligently contested in good faith and discharged within thirty (30) days after it is filed or presented.

A court having jurisdiction enters a decree or order for (i) relief in respect of either Parent in an involuntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, (ii) appointment of a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official of either

Parent or for all or substantially all of the property and assets of either Parent, or (iii) the winding up or liquidation of the affairs of either Parent and, in each case, such decree or order shall remain unstayed and in effect for a period of 30 consecutive days.

(i) CCAA

Any proceedings with respect to any Obligor are taken with respect to a compromise or arrangement under the *Companies Creditors Arrangement Act* (or any Act substituted therefor) or similar legislation of any other jurisdiction.

Either Parent (i) commences a voluntary case under any applicable bankruptcy, insolvency or other similar law now as hereafter in effect, or consents to the entry of an order for relief in an involuntary case under any such law, (ii) consents to the appointment of or taking possession by a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official of either Parent or for all or substantially all of the property and assets of either Parent or (iii) effects any general assignment for the benefit of creditors.

(j) Distress

An encumbrancer or landlord takes possession of any part of the property or leased premises of any Obligor, or if a distress or execution or any similar process becomes enforceable or is enforced against any Obligor in connection with a debt or claim in excess of one-hundred thousand (\$100,000) dollars, except where same is being contested actively and diligently in good faith by appropriate and timely proceedings, or if a custodian or sequestrator or a receiver or receiver and manager or any other officer with similar powers is appointed for any Obligor or for any part of the property of any Obligor.

(k) False Representation

Any representation or warranty contained herein or made in any certificate or other document delivered by any Obligor or Parent or any persons acting for or on behalf of any of them to the Agent or the Lenders shall have been determined by the Agent, acting reasonably, to be false or is incorrect in any material respect as of its date of making unless the Obligor and/or the Parent shall have taken steps within ten (10) days of determining that such representation or warranty is false or misleading, or having received written notice to that effect from the Agent, to make such representation or warranty true and correct.

(l) Cease to Carry on Business

Any Obligor shall cease to carry on in the ordinary course the Business or a substantial part thereof.

(m) Default

Any Obligor defaults in observing or performing any of the agreements or covenants in any material lease, licence, debenture, deed of trust or agreement whereby any material property or rights of such Obligor may become liable for forfeiture or where any such material lease, licence, debenture, deed of trust or agreement would be subject to termination, the affected Obligor fails to cure such default within any curative period provided for therein, and such default has not been waived.

(n) Share Ownership

Any shares of the Borrower cease to be wholly owned, directly or indirectly, by the Ultimate Parent or any Restricted Subsidiary.

(o) Employment

Any Obligor fails to meet its obligations to remit any withholding taxes in respect of employee obligations within three (3) Business Days of the payment date therefor.

10.2 Acceleration

At any time any one or more Events of Default shall have occurred and be continuing:

- (a) all indebtedness of the Borrower to the Lenders hereunder shall, at the option of the Lenders, immediately become due and payable upon written notice to but without requirement for presentment, demand, protest or other notice of any kind to the Borrower;
- (b) all indebtedness of the Borrower to the Lenders hereunder, if the same shall have become immediately due and payable pursuant to this Section 10.2, shall be paid as if the same were a prepayment pursuant to Article 4 and, in particular, the Borrower shall be responsible for the Make Whole Premium and all expenses payable pursuant to Article 11 hereof;
- (c) the Borrower shall pay to the Lenders as additional security for the obligations of Globility to the Lenders or the Agent pursuant to the Globility Guarantee and Security Agreement cash collateral in an amount equal to the aggregate of (i) the principal amount of the loan advanced by the Lenders to Globility (ii) all interest thereon for the period commencing on the date of the Event of Default and ending on the Maturity Date and (iii) all other amounts payable to the Lenders or the Agent pursuant to the loan agreement between the Lenders, the Agent, Globility and MIPPS Inc. dated the date hereof;
- (d) all Security and other Loan Documentation shall thereupon, at the option of the Lenders, become enforceable by the Agent on behalf of the Lenders.

10.3 Consultant

The Obligors agree that, at any time while an Event of Default has occurred and is continuing, upon written request delivered by the Agent, they shall appoint a financial consultant (hereinafter referred to as the “**Consultant**”), for the purposes of reviewing their respective operations from time to time. The terms of the Consultant’s scope of duties shall be settled by the Borrower with the consent of the Agent, provided that such terms may be settled by the Agent if agreement with the Borrower is not reached within fifteen (15) days of the date of the notice. The Obligors consent at all times to a free exchange of information between the Agent and the Consultant, whether or not the Obligors are apprised of the occurrence of such exchange of information or the particulars of any such information exchanged at any time.

10.4 Remedies Cumulative

The rights and remedies of the Agent and the Lenders hereunder are cumulative and in addition to and not in substitution for any rights or remedies provided by law.

10.5 Benefit of Security; Set-Off; Sharing of Payment

All Security shall be held by the Agent for the rateable benefit of all of the Lenders, and all proceeds therefrom which are distributable to the Lenders shall be applied for the rateable benefit of the Lenders irrespective of any priority to which any Lender may otherwise be entitled. Notwithstanding the foregoing or any other provision of this Agreement, if there shall exist at any time any amount payable by any Lender to any other Lender or the Agent pursuant to any provision of the Loan Documents, then such amount shall be taken into account when calculating, and an appropriate portion thereof shall be paid from, any proceeds of Security otherwise payable to such first Lender.

ARTICLE 11

FEES

11.1 Expenses

Whether or not any monies are advanced under the Loan, the Borrower agrees to pay from time to time all reasonable out-of-pocket expenses, disbursements and reasonable legal expenses of the Agent and the Lenders in connection with its due diligence on the Obligors and the Parents, the preparation of this agreement and the Loan Documents, and reasonable costs in connection with the ongoing maintenance and enforcement of the Security and renewals of registrations when necessary. On the Closing Date, the legal fees and disbursements and other disbursements incurred by the Agent or the Lenders to such date shall be paid by the Borrower.

11.2 Arrangement Fee

An arrangement fee of four-hundred thousand (\$400,000) dollars for services rendered up to and including the Closing Date shall be payable by the Borrower to the Lenders on the Closing Date. The Lenders acknowledge receipt of two-hundred thousand (\$200,000) dollars towards payment of this fee. The balance of such fee shall be paid by the Borrower to the Lenders on the Closing Date.

ARTICLE 12
THE AGENT

12.1 Appointment

The Lenders hereby appoint the Agent to act as their agent as herein specified and, except as may be specifically provided to the contrary herein, each of the Lenders hereby irrevocably authorizes the Agent, as the agent of such Lender, to take such action on its behalf under or in connection with the Loan Documents and to exercise such powers thereunder as are delegated to the Agent by the terms thereof and such other powers as are reasonably incidental thereto which it may be necessary for the Agent to exercise in order that the provisions of the Loan Documents are carried out. The Lenders hereby acknowledge and agree that the Agent is the holder of an irrevocable power of attorney (within the meaning of the Civil Code of Quebec) from the Lenders for the purpose of holding any of the Security or any other security granted by any Person with respect to the liabilities of the Borrower under the Loan Documents, and the Agent hereby agrees to act in such capacity. The Agent may perform any of its duties under the Loan Documents by or through its agents. The Borrower shall not be concerned to enquire whether the powers which the Agent is purporting to exercise have become exercisable or otherwise as to the propriety or regularity of any other action on the part of the Agent, and accordingly insofar as the Borrower is concerned, the Agent shall for all purposes hereof be deemed to have authority from the Lenders to exercise the powers and take the actions which are in fact exercised and taken by it.

12.2 Indemnity from Lenders

The Lenders agree to rateably indemnify the Agent (to the extent that the Agent is not promptly reimbursed by the Borrower on demand) from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any nature or kind whatsoever which may be imposed on, incurred by, or asserted against the Agent in its capacity as agent hereunder which in any way relate to or arise out of the Loan Documents or any action taken or omitted by the Agent under the Loan Documents; provided that no Lender shall be liable for any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements which result from the Agent's gross negligence or wilful misconduct. Without limitation, each Lender agrees to reimburse the Agent promptly upon demand for its rateable share of out-of-pocket expenses (including all fees and disbursements of legal counsel) incurred by the Agent in connection with the preparation of the Loan Documents and the determination or preservation of any rights of the Agent or the Lenders under, or the enforcement of, or legal advice in respect of rights or responsibilities under, the Loan Documents, to the extent that the Agent is not promptly reimbursed for such expenses by the Borrower on demand.

12.3 Exculpation

The Agent shall have no duties or responsibilities except those expressly set forth in the Loan Documents. Neither the Agent nor any of its officers, directors, employees or agents shall be liable for any action taken or omitted to be taken under or in connection with the Loan Documents, unless such act or omission constitutes gross negligence or wilful misconduct. The duties of the Agent shall be mechanical and administrative in nature; the Agent shall not have by reason of the Loan Documents a fiduciary relationship with any Lender (unless and to the extent that the Agent receives money or property on behalf of a Lender) and nothing in the Loan Documents, express or implied, is intended to or shall be construed as to impose upon the Agent any obligation except as expressly set forth therein. None of the Lenders shall have any duties or responsibilities to any of the other Lenders except as expressly set forth in the Loan Documents. The Agent shall not be responsible for any recitals, statements, representations or warranties in any of the Loan Documents or which may be contained in any other document subsequently received by the Agent or the Lenders from or on behalf of any Obligor or for the authorization, execution, effectiveness, genuineness, validity or enforceability of any of the Loan Documents, and shall not be required to make any inquiry concerning the performance or observance by any Obligor of any of the terms, provisions or conditions of any of the Loan Documents. Each of the Lenders severally represents and warrants to the Agent that it has made and will continue to make such independent investigation of the financial condition and affairs of the Obligors as such Lender deems appropriate in connection with its entering into of any of the Loan Documents and the making and continuance of any Advances hereunder, that such Lender has and will continue to make its own appraisal of the creditworthiness of the Obligors and that such Lender in connection with such investigation and appraisal has not relied upon any information provided to such Lender by the Agent.

12.4 Reliance on Information

The Agent shall be entitled to rely upon any writing, notice, statement, certificate, facsimile, telex or other document or communication believed by it to be genuine and correct and to have been signed, sent or made by the proper person or persons, and, with respect to all legal matters pertaining to the Loan Documents and its duties thereunder, upon the advice of counsel selected by it.

12.5 Knowledge and Required Action

The Agent shall not be deemed to have knowledge or notice of the occurrence of any Default or Event of Default (other than the non-payment of any principal, interest or other amount to the extent the same is required to be paid to the Agent for the account of the Lenders) unless the Agent has received notice from a Lender or the Borrower specifying such Default or Event of Default and stating that such notice is given pursuant to this Section 12.5. In the event that the Agent receives such a notice, it shall give prompt notice thereof to the Lenders, and shall also give prompt notice to the Lenders of each non-payment of any amount required to be paid to the Agent for the account of the Lenders. The Agent shall, subject to Section 12.6, take such action with respect to such Default or Event of Default as shall be directed by the Lenders in accordance with Article 12; provided that, unless and until the Agent shall have received such direction, the Agent may, but shall not be obliged to, take such action, or refrain from taking

such action, with respect to such Default or Event of Default as it shall deem advisable in the best interest of the Lenders; and provided further that the Agent in any case shall not be required to take any such action which it determines to be contrary to the Loan Documents or to any Applicable Law.

12.6 Request for Instructions

The Agent may at any time request instructions from the Lenders with respect to any actions or approvals which, by the terms of any of the Loan Documents, the Agent is permitted or required to take or to grant, and the Agent shall be absolutely entitled to refrain from taking any such action or to withhold any such approval and shall not be under any liability whatsoever as a result thereof until it shall have received such instructions from the Lenders who have committed to advance 50.1% of the Loan. No Lender shall have any right of action whatsoever against the Agent as a result of the Agent acting or refraining from acting under the Loan Documents in accordance with instructions from all the Lenders. The Agent shall in all cases be fully justified in failing or refusing to take or continue any action under the Loan Documents unless it shall have received further assurances to its satisfaction from all the Lenders of their indemnification obligations under Section 12.2 against any and all liability and expense which may be incurred by it by reason of taking or continuing to take such action, and unless it shall be secured in respect thereof as it may deem appropriate.

12.7 Exchange of Information

The Borrower agrees that each Lender and the Agent may provide to the other Lenders or the Agent such information concerning the financial position and property and operations of the Obligors as, in the opinion of such Lender or the Agent, is relevant to the ability of each of the Obligors to fulfil its respective obligations under or in connection with the Loan Documents.

12.8 The Agent, Individually

With respect to the share of the Loan made available by it and the Loan Documents to which it is a party, the Agent shall have the same rights and powers hereunder as any other Lender and may exercise such rights and powers as though it were not the Agent, and the term “**Lenders**” shall, unless the context clearly otherwise indicates, include the Agent in its individual capacity.

12.9 Resignation and Termination

If at any time (i) the Agent shall deem it advisable, in its sole discretion, it may deliver to each of the Lenders and the Borrower written notification of its resignation insofar as it acts on behalf of the Lenders pursuant to this Article 12, or (ii) the Agent is in default of any of its obligations hereunder and the Lenders shall deem it advisable, in their sole discretion, they may deliver to the Agent and the Borrower written notification of the termination of the Agent’s authority to act on behalf of the Lenders pursuant to this Article 12, such resignation or termination to be effective upon the date of the appointment by the Lenders of a successor which shall assume all of the rights, powers, privileges and duties of the Agent hereunder, which appointment shall be promptly made from among the remaining Lenders and written notice

thereof shall be given to the Borrower concurrently with such appointment. If in the case of notice of resignation by the Agent no appointment of a successor Agent has been made by the Lenders within thirty (30) days after such notice has been delivered, the resigning Agent may make such appointment.

12.10 Actions by Lenders

Any approval (including without limitation any approval of or authorization for any amendment to any of the Loan Documents), instruction or other expression of the Lenders hereunder may be obtained by an instrument in writing signed in one or more counterparts by all the Lenders (which instrument in writing, for greater certainty, may be delivered by facsimile as provided in Section 13.3).

12.11 Provisions for Benefit of Lenders Only

The provisions of this Article 12 shall be operative as between the Lenders and the Agent only, and the Borrower shall not have any rights under or be entitled to rely for any purposes upon such provisions.

ARTICLE 13 **GENERAL**

13.1 No Waiver of Rights

No course of dealing between any Obligor and the Lenders and no delay on the part of the Agent or any Lender under this Agreement or any other agreement between the Agent, the Lenders and the Obligor shall operate as a waiver of any rights of the Agent or the Lenders hereunder.

13.2 No Waiver of Defaults

No failure or delay on the part of the Agent or any Lender in exercising any right or privilege hereunder and no waiver as to any default by the Shareholder or any Obligor shall operate as a waiver thereof unless made in writing and signed by the appropriate officer of the Agent. Any written waiver by the Agent or the Lenders will not preclude the further or other exercise by the Agent or the Lenders of any right, power or privilege hereunder or extend or apply to any further default by any Obligor. For greater certainty, any failure or delay on the part of the Agent or the Lenders in requiring strict compliance with any time period prescribed herein, will not preclude the Agent or the Lenders from reasserting the strict compliance with any such time period whereupon the Obligors shall so comply.

13.3 Notices

Any notice to be given hereunder shall be in writing and may be effectively given by delivering the same at the addresses hereinafter set forth or by sending the same by prepaid registered mail, or telefax to the Lenders or the Borrower at such addresses. Any notice so mailed shall be deemed to have been received on the third (3rd) Business Day following the

mailing thereof and if given by delivery or telefax, the same shall be deemed to have been received upon delivery or upon transmission (with appropriate answer back). The delivery, mailing, and telefax address of the parties for the purpose hereof shall be:

- (a) as to the Borrower and the Shareholder:

5343 Dundas Street West
Suite 400

Toronto, ON M9B 6K5
Attention: President
Telecopier: (416) 236-7391

- (b) as to the Lenders and the Agent:

The Manufacturers Life Insurance Company
200 Bloor St. East NT - 6
Toronto, ON M4W 1E5

Attention: Assistant Vice-President
Telecopier: 416-926-5737

13.4 Method of Payment

All payments to be made by the Borrower to the Lenders hereunder shall be made by means of cheque of immediately available funds to such bank accounts as the Lenders advise from time to time.

13.5 Successors and Assigns

This Agreement shall be binding upon and enure to the benefit of the parties hereto and their successors and assigns; provided however, the Borrower shall not assign any of its rights or obligations hereunder without the prior written consent of the Lenders. In addition to any transfer required to be made to any other Lender hereunder or required by Applicable Law to be made to any Person, a Lender may assign or transfer any part of its rights and obligations in respect of its commitment to make Advances hereunder or any portion of the Loan held by it, to such Persons, at such times and upon such terms as it may determine, without any obligation to obtain any consent of any Obligor or Parent; provided that:

- (i) so long as no Event of Default has occurred and is then continuing, (A) such Lender shall have first received the prior written consent of the Agent and each other Lender permitting it to do so; (B) such Lender shall have received the prior consent of the Borrower acting reasonably; (C) the proposed assignee or transferee shall not be a non-resident of Canada as such term is defined in the *Income Tax Act* (Canada); and (D) such Lender shall not assign or transfer its rights to a competitor of the Business; it being agreed that the foregoing restrictions shall not apply where an Event of Default has occurred and is continuing; and

- (ii) the assigning or transferring Lender (the “Assignor”) shall obtain from the assignee (the “Assignee”) an undertaking of the Assignee, addressed to the parties to this Agreement (as such parties may be constituted at such time), whereby the Assignee agrees to be bound by this Agreement in the place and stead of the Assignor to the extent of the rights and obligations of the Assignor in respect of the amount of the Loan agreed to be advanced by such Lender that has been assigned or transferred to the Assignee.

13.6 Governing Law

This Agreement, the Security and all certificates and other documentation delivered to the Agent or the Lenders shall be construed and interpreted in accordance with the laws of the Province of Ontario except as expressly stated in any other document and each Obligor agrees to attorn to the jurisdiction of the Province of Ontario.

13.7 Entire Agreement

This Agreement embodies the entire agreement and understanding between the parties hereto and supersedes all prior agreements and undertakings whether oral or written relative to the subject matter hereof, including the Loan Agreement dated for reference February 11, 2003 and the First Amendment to the Loan Agreement dated March 18, 2003 and by a Second Amendment to the Loan Agreement dated December 8, 2003 (the “Original Loan Agreement”), the term sheet from the Lender dated February 9, 2004 and the Offer to Finance dated February 19, 2004.

This Agreement is and shall for all purposes be deemed to be an amendment and restatement of the provisions of the Original Loan Agreement. This Agreement shall supersede the Original Loan Agreement insofar as it constitutes the entire agreement between the parties concerning the subject matter of this Agreement, but does not constitute a novation of the Original Loan Agreement. All principal amounts outstanding under the Original Loan Agreement and interest accrued thereon shall be deemed to be principal amounts outstanding and interest accrued thereon under this Agreement.

13.8 Modification

Except as specifically set out herein, no term or provision hereof may be changed, modified, waived, terminated or discharged, in whole or in part, except by a writing which is dated and signed by the Borrower and the Agent on behalf of the Lenders.

13.9 Headings

The division of this Agreement into sections and subsections and the insertion of headings are for convenience and reference only and shall not affect the construction or interpretation of this Agreement.

13.10 Number

Words importing the singular number only shall include the plural and vice versa, words importing the masculine gender shall include the feminine and neuter genders and words importing persons shall include firms and corporations and vice versa.

13.11 Words and Phrases

Words such as “hereunder”, “hereto”, “hereof, and “herein” shall, unless the context clearly indicates to the contrary, refer to the whole of this Agreement and not to any particular article, section, subsection, paragraph or schedule hereof. Words importing the singular include the plural thereof, and vice versa, and words importing gender include the masculine, feminine and neuter genders and words importing individual persons shall include firms and corporations and vice versa. The word “including” shall mean including, without limitation.

13.12 Permissible Forms of Writing

In this Agreement, the words “in writing “ or “written” means any form of written communication, and shall include a communication by means of telecopier or facsimile device.

13.13 Statutory References

Any reference in this Agreement to any Act or Statute or section thereof shall be deemed to be a reference to such Act or Statute or section as it exists now.

13.14 Severable Provisions

The provisions of this Agreement are severable, and if any one or more provisions may be determined to be unreasonable or illegal or otherwise unenforceable, in whole or in part, the remaining provisions shall nevertheless be binding and enforceable. In the event that any provision of this Agreement is found to be unenforceable, the parties agree to reform such provision, to the maximum extent permitted by law and if a court indicates what reforms would make such provision enforceable, the parties will abide by what that court determines.

13.15 Execution of Additional Documents

From time to time, the Obligors shall, at the request of the Agent or the Lenders, execute and deliver such additional transfers, instruments, documents and other assurances as may, in the opinion of counsel for the Agent or the Lenders, be reasonably required effectually to carry out the intent of this agreement. Such additional transfers, instruments, documents and other assurances shall be in form satisfactory to counsel for the Agent and the Lenders.

13.16 Other Definitional Terms

The terms “this Agreement”, “hereby”, “herein”, “hereunder”, “hereto” and similar expressions refer to this Agreement and not to any particular section, subsection or portion thereof and include every amendment or instrument supplementary thereto or an implementation hereof.

13.17 Counterparts

This Agreement may be executed in two or more counterparts, each of which shall be deemed to be an original and all of which together shall constitute one and the same agreement.

13.18 Conflict

To the extent that any term, condition, representation, covenant or other provision contained in the Security or other instruments delivered pursuant to this Agreement is at any time inconsistent or conflicts with any term, condition, representation, covenant or other provision contained in this Agreement, then this Agreement shall govern and the Borrower shall be deemed not to be in default under such first-mentioned term, condition, representation, covenant or other provision, so long as it complies with the terms, conditions, representations, covenants and other provisions contained in this Agreement. For greater certainty, to the extent the Security contains any covenants, representations, warranties or events of default which are not in any way addressed or contained in this Agreement, such covenants, representations, warranties or events of default shall not be considered inconsistent with or conflict with this Agreement.

13.19 Confidentiality

Except as required by law and other than to its employee and professional advisors, there shall be no public announcements or disclosures by any Obligor regarding this transaction or the identity of the Lender. Prior to making any required disclosure with respect to the transaction contemplated by this Loan Agreement, the Agent will provide a draft copy of the disclosure materials and provide the Agent with the opportunity to comment thereon.

[THE REMAINDER OF THIS PAGE IS LEFT INTENTIONALLY BLANK]

IN WITNESS WHEREOF the parties hereto have executed this Agreement as of the date first above written.

THE MANUFACTURERS LIFE INSURANCE COMPANY

Per: /s/ Vipon Ghai

Name: Vipon Ghai
Title: AVP

Per: _____

Name:
Title:

PRIMUS TELECOMMUNICATIONS CANADA INC.

Per: /s/ Edmund Chislett

Name: Edmund Chislett
Title: President

Per: _____

Name:
Title:

3082833 NOVA SCOTIA COMPANY

Per: /s/ Edmund Chislett

Name: Edmund Chislett
Title: President

Per: _____

Name:
Title:

SCHEDULE A

MAKE WHOLE PREMIUM

In the Loan Agreement and this Schedule:

“Make Whole Premium” means the present value of the Monthly Cashflow Shortfall Amounts until the Maturity Date discounted utilizing the Monthly Discount Rate. The Make Whole Premium shall not be less than zero.

“Monthly Cashflow Shortfall Amounts” means the amounts calculated at the end of each month, commencing the month in which prepayment is made until the Maturity Date, being the product of the Monthly Loan Principal Differential multiplied by the Monthly Interest Differential.

“Monthly Loan Principal Differential” means the differential calculated at the end of each month, commencing the month in which prepayment is made until the Maturity Date of the Loan, between (i) the Loan balance outstanding owing to the Lender at the end of each month without regard for the prepayment; and (ii) the Loan balance owing to the Lender outstanding at the end of each month after giving effect to the prepayment.

“Monthly Interest Differential” means the differential between (i) the Loan Interest Rate divided by 12; and (ii) the Monthly Discount Rate. In the event that the Monthly Interest Differential is less than zero, the Make Whole Premium shall be zero.

“Maturity Date” has the meaning set out in Section 1.1(uu) of the Loan Agreement.

“Monthly Discount Rate” means the Monthly Equivalent Reinvestment Rate divided by 12.

“Monthly Equivalent Reinvestment Rate” means the annual interest rate compounded monthly that is equivalent to the Reinvestment Rate compounded monthly.

“Reinvestment Rate” means the Government of Canada Bond Rate plus 50 basis points.

“Government of Canada Bond Rate” means the average annual yield to maturity on a Government of Canada bond, compounded semi-annually, with a term equal to the then remaining term to the Maturity Date of the Loan, as published in a nationally recognized financial business publication, in effect at the close of business (Toronto time) two (2) business days prior to the date of determination.

“Loan Interest Rate” has the meaning set out in Section 1.1(qq) of the Loan Agreement.

SCHEDULE B
PERMITTED LIENS

PERSONAL PROPERTY SECURITY ACT (Ontario)

(a) Primus Telecommunications Canada Inc.

Secured Party(ies)	Debtor(s)	Reference File No. & Registration Number (Registration Period)	Collateral Classification	General Collateral Description	Comments
1. 3082833 Nova Scotia Company	Primus Telecommunications Canada Inc.	603432432 -20040301 1515 1590 8834 (10 years)	Accounts, Other		Subject to a postponement and subordination agreement.
2. Xerox Canada Ltd.	Primus Telecommunications Canada Inc.	600044625 -20031007 1235 1715 2595 (6 years)	Equipment, Other		Subject to an estoppel letter dated March 22, 2004.
3. Xerox Canada Ltd.	Primus Telecommunications Canada Inc.	887957811 -20021003 1242 1715 0619 (5 years)	Equipment, Other		Subject to an estoppel letter dated March 22, 2004.
4. Canlinc North Supply Ltd.	Primus Telecommunications Canada Inc.	887801121 -20020930 1714 1462 9009 (5 years)	Equipment, Other	Purchase Money Security Interest	
5. Xerox Canada Ltd.	Primus Telecommunications Canada Inc.	884948922 -20020703 1310 1715 0131 (5 years)	Equipment, Other		Subject to an estoppel letter dated March 22, 2004.
6. Lucent Technologies Inc.	Primus Telecommunications Canada Inc.	884425104 -20020617 1226 1590 0953 (5 years)	Other	Lucent Technologies Inc. reserves a purchase money security interest in all products and licensed materials, and any and all proceeds of them until any and all payments and charges due Lucent Technologies Inc. under are paid in full, including, without limitation, prices for products, fees for licensed materials, taxes and duties.	

Secured Party(ies)	Debtor(s)	Reference File No. & Registration Number (Registration Period)	Collateral Classification	General Collateral Description	Comments
7. Xerox Canada Ltd.	3362426 Canada Inc. Primus Telecommunications Canada	879298083 -20020102 1738 1715 8940 (5 years)	Equipment, Other		Subject to an estoppel letter dated March 22, 2004.
8. Lucent Technologies Canada Corp.	Primus Telecommunications Canada Inc.	874414548 -20010713 1712 1462 5759 (5 years)	Equipment, Accounts, Other		Subject to an estoppel letter dated March 25, 2004.
9. Citicapital Technology Finance Ltd.	Primus Telecommunications Canada Inc.	868115106 -20001205 1757 1531 8988 (3 years)	Equipment, Accounts, Other	All present and future acquired telephone and communication systems, including without limitation, all related equipment components, attachments, accessories, replacements and proceeds, supplied by Bell Canada or its affiliates	Will be discharged.

(b) Windsor Information Network Company Limited

Secured Party(ies)	Debtor(s)	Reference File No. & Registration Number (Registration Period)	Collateral Classification	General Collateral Description	Comments
1 National Leasing Group Inc. L#2099878	Windsor Information Network Company Limited	868380606-20001215 1207 6005 3716 (4 years)	Equipment		

REGISTRY OF PERSONAL AND MOVEABLE REAL RIGHTS (Quebec)

Secured Party(ies)	Debtor(s)	Registration Number (Registration Period)	General Collateral Description	Comments
1. Citicapital Technology Finance Ltd./Citicapital Financement de Technologie	Primus Telecommunications Canada Inc.	02-0041596-0001 Date of Registration: February 1, 2002 Date of Expiry: February 1, 2006	All present and future acquired telephone and communication systems, including without limitation, all related equipment components, attachments, accessories, replacements and proceeds, supplied by Bell Canada or its affiliates.	Subject to an estoppel letter dated March 26, 2004.
2. Citicapital Technology Finance Ltd./Citicapital Financement de Technologie	Primus Telecommunications Canada Inc.	02-0041596-0002 Date of Registration: February 1, 2002 Date of Expiry: February 1, 2006	All present and future acquired telephone and communication systems, including without limitation, all related equipment components, attachments, accessories, replacements and proceeds, supplied by Bell Canada or its affiliates.	Subject to an estoppel letter dated March 26, 2004.

Schedule 6.1 (j)
Material Adverse Changes

Nil.

Schedule 6.1 (I)
Taxes

London Telecom Network Inc (LTNI) Notice of Assessment for 1997 and 1998 Taxation Years

Nature of Assessment:

Canada Customs and Revenue Agency (CCRA) has filed an assessment against LTNI (a wholly owned subsidiary of Primus Telecommunications Canada Inc. (PTCI), that was amalgamated with PTCI in December 31, 2000) disallowing the deductibility of a number of expenses for the 1997 and 1998 taxation years. Notices of objection have been filed and the matter is before the Appeals Division of CCRA.

The company has retained the law firm of Couzin Taylor and accounting firm of Ernst & Young to represent them in this matter.

At this date the ultimate resolution of this matter is uncertain. The issues are complex and could potentially go through a formal legal process prior to finalization.

Assessed Amounts

Federal Assessment (April 2001 Mailing Date)

	1998	1997
Tax	\$2,909,794	\$ 2,300,193
Penalties	1,560,120	1,150,096
Interest	1,371,151	1,275,256
	<hr/>	<hr/>
	\$5,841,065	\$ 4,725,545
Accrued Interest (per 2/21/04 statement)	1,432,599	1,159,000
	<hr/>	<hr/>
	\$7,273,664	\$ 5,884,545

Ontario Assessment (May 13, 2002 reassessment date)

	1998	1997
Tax	\$1,565,828	\$ 1,255,222
Penalties	965,492	612,250
Interest	1,184,543	1,030,354
	<hr/>	<hr/>
	\$3,716,766	\$ 2,897,826
Accumulated Interest net of payments	531,616	(1,651,538)
Balance per February 21, 2004 statement	<hr/>	<hr/>
	\$4,248,382	\$ 1,246,288

Primus Telecommunications Canada Inc. ("PTCI") Notice of Assessment for June 3, 2003 Taxation Year

Nature of Assessment:

CCRA has filed an assessment against PTCI disallowing the use of certain non-capital losses. At the time of filing its tax return for the June 3, 2003 taxation year, PTCI made a formal request to the CCRA to amend its tax returns for prior years to recognize certain expenses that should have been deducted in those years and update non-capital losses accordingly. The requested amendments were incompletely processed. A Notice of Objection has been filed and the matter is before the Appeals Division of the CCRA. At this date the ultimate timing for resolution of this matter is uncertain. Given the nature of this assessment, PTCI believes that the matter will be resolved without any further payment of taxes by PTCI.

Assessed Amount:

Federal Assessment (February 27, 2003 Mailing Date)

	<u>2003</u>
Tax	\$1,198,119
Penalties	60,110
Interest	54,058
	<u>\$1,312,289</u>

1497884 Ontario Limited Notices of Assessments for December 31, 2002 and June 3, 2003 Taxation Years.

Nature of Assessment:

CCRA has filed assessments against 1497884 Ontario Limited disallowing the inclusion of certain expenses in the December 31, 2002 tax return that should have been included in the December 2000 and 2001 taxation years. A Notice of Objection has been filed and the matter is before the Appeals Division of the CCRA. At this date the ultimate timing for resolution of this matter is uncertain. Given the nature of this assessment, 1497884 Ontario Limited believes that the matter will be resolved with minimal or no further payment of taxes.

Assessed Amount:

Federal Assessment December 31, 2002 (December 19, 2003 Mailing Date)

	<u>2002</u>
Tax	\$193,680
Interest	12,626
	<u>\$206,306</u>

Federal Assessment June 3, 2003 (January 14, 2004 Mailing Date)

	<u>2003</u>
Tax	\$215
Interest	7
	<u>\$222</u>

Schedule 6.1 (m)
Outstanding Obligations

There are no bonds, purchase money mortgages, debentures, security agreements, promissory notes, Capital Lease Obligations, (having a principal amount outstanding in excess of \$300,000) conditional sales contracts (having a principal amount outstanding in excess of \$25,000), or other evidences of secured indebtedness outstanding affecting the Business or the property or assets of the Obligor other than the notes evidencing the Loan, the Security, the Senior Facility and the Senior Facility Security except as described below:

1. Promissory Note in the amount of C\$237,227,000.00 dated March 1, 2004 given by the Shareholder in favour of the Immediate Parent that matures on March 1, 2014.
2. Promissory Note in the amount of C\$98,000,000.00 dated January 1, 2000 given by the Borrower in favour of the Shareholder that matures on January 1, 2006.
3. Promissory Note in the amount of C\$98,000,000.00 dated January 1, 2000 given by the Shareholder in favour of the Immediate Parent that matures on January 1, 2006.
4. Debenture in the amount of C\$237,227,000.00 dated March 1, 2004 given by the Borrower in favour of the Shareholder that matures on March 1, 2014.

Schedule 6.1 (o)
Leased Property

Operating leases greater than \$200,000 are as follows:

<u>Location of Leased Property</u>	<u>Square Feet</u>	<u>Annual Rent</u>
Floor 15, 16, 17, 1188 West Georgia St. Vancouver, BC	16,885	\$ 417,693
135 St. Francis Street, Edmundston, NB	10,954	270,405
Unit 604A, 607 & 610, 151 Front Street W. Toronto, ON	7,670	645,936
Suite 110, 401, 500 & 600, 5343 Dundas Street W. Toronto	54,473	1,415,064
Suite 700, 710 Dorval Dr. Oakville, ON	14,916	546,246
Suite 3625, 1 Place Ville Marie, Montreal	5,291	209,047

Schedule 6.1 (g)
Insurance

Please see attached.

- 301-984-5900
- 800-800-2860
- 301-692-4474
- www.hrh.com

SUMMARY OF INSURANCE
FOR
PRIMUS TELECOMMUNICATIONS
CANADA INC.

Presented By:

William B. Hocknell, CPCU, ARM
Vice President

Elaine M. Lewis, CPCU
Account Manager

This summary of insurance is a brief overview of your insurance coverage. The information contained herein does not replace or alter the insurance policy coverages, terms, and/or conditions. Please read your policies carefully.

March 26, 2004

NAMED INSUREDS

Primus Telecommunications, Inc.

Trescom International, Inc.

Trescom W.S.A. Inc.

St. Thomas & San Juan Telephone Co.

d/b/a Trescom International Caribbean Div.

STSJ Overseas Telephone Co., d/b/a Trescom P.R.

STSJ Overseas Telephone Co., d/b/a P.R. Telecom

Interisland Telephone Corp.

Global Telephone Holdings, Inc.

OTC Network Assets, Inc.

Trescom Network Services, Inc.

Intex Telecommunications, Inc.

Least Cost Routing, Inc.

Rate Reduction Center

Rockwell Communications Corp.

STSJ Network Assets, Inc.

Puerto Rico Telecom Corp.

Total Telecommunications, Inc.

Telegroup, Inc.

Globalserve Communications, Inc.

iPrimus Canada

3082833 Nova Scotia Company

ACC

Primus Telecommunications Canada

Primus Canada

London Telecom Network, Inc.

Wintel CNC Communications, Inc.

Totalline Communications, Inc.

3271684 Canada, Inc.

LTN Data Services, Inc.

LTG Holdings, LTD.

Telephone Savings Network, Ltd.

3620221 Canada, Inc.

Infinity Online, Inc.

3271684 Canada, Inc.

Wincom

Windsor Information Network Co., Ltd.

MIPPS Inc.

Globility Communications Corporation

COMMERCIAL PACKAGE POLICY

Company: Chubb Insurance Co. of Canada
Policy Number: 35397868
Policy Term: 12/23/03 to 12/23/04
Policy Premium: \$85,025 Canadian Funds

All Limits Shown are in Canadian Dollars

PROPERTY SECTION

<u>LIMIT</u>	<u>COVERAGE</u>
	Premises Excel Worksheet is being updated and these limits may change.
\$ 30,610,000	Personal Property including Electronic Data Processing Property
\$ 1,000	Deductible
\$ 27,745,000	Business Income and Extra Expense *This coverage is provided by Federal Ins. Co. Policy #35374271 for Primus Telecommunications and is paid for under the Primus Package.

COVERAGE EXTENSIONS

<u>LIMIT</u>	<u>COVERAGE</u>
\$250,000	Blanket Limit of Insurance, Covered Premises

The Blanket Limit of Insurance shown above applies over all of the Coverages shown below. This Blanket Limit of Insurance applies separately at each covered premises shown in the Declarations and is subject to the Property Deductible shown in the Declarations. At time of loss, the first Named Insurance may elect to apportion this Blanket Limit of Insurance to one or any combination of the Coverages shown.

- Accounts Receivable
- Electronic Data Processing Property
- Leasehold Interest – Undamaged
- Personal Property of Employees
- Consequential Loss
- Extra Expense
- Fire Department Services Charges
- Outdoor Trees, Shrubs, Plants Lawns
- Valuable Papers
- Fine Arts
- Tenant’s Improvements & Betterments

Additional Coverage

The Limits of Insurance shown are provided for the Coverages shown at no additional cost including the Limits of Insurance shown below. These Limits of Insurance apply separately at each of your premises unless otherwise shown.

\$ 250,000 Debris Removal

\$ 50,000 Deferred Payments

\$ 5,000 Exhibition, Fairs or Trade Show

\$ 50,000 Installation

\$ 10,000 In Transit - Accounts Receivable, Fine Arts, Valuable Papers

\$ 50,000 In Transit - Electronic Data Processing Property

\$ 10,000 Inventory or Appraisals

\$ 5,000 Loss Prevention Expenses

\$ 20,000 Money & Securities - On Premises

\$ 10,000 Money & Securities - Off Premises

\$ 25,000 Pollutant Clean-up or Removal

\$ 10,000 Processing Water

BUSINESS PACKAGE**GENERAL LIABILITY**

<u>LIMIT</u>	<u>COVERAGE</u>
\$1,000,000	Each Occurrence
\$2,000,000	Products/Completed Operations Aggregate
\$1,000,000	Advertising Injury and Personal Injury
\$ 10,000	Medical Expense

ADDITIONAL INSUREDS/LOSS PAYEES SCHEDULE***With Respect to:***

1	Hyland Pacific Management	1750-1188 W Georgia St, Ste 1525, Vancouver
2	Harbour Centre Complex Limited	555 West Hastings St, Ste 2050 & 2060, Vancouver
3	Brunswick Shopping Centre, Ltd	135 St. Frances Street, Edmundston, NB
4	The RACO Group of Companies	151 Front St, Ste 610,607,604, Toronto
5	Oxford Development Group, Inc.	Park Place Mall, 501-1st Ave, Storage Area S11, Lethbridge, AB
6	Hanover Property Management, Ltd	504, 206-7th Ave, SW, Calgary AB 230, 605-1st St, SW, Calgary AB
7	Industrial Alliance Life Ins. Co.	255 Racine Est, Chicoutimi, PQ
8	Teletech Financial Corporation	5343 Dundas St, Toronto (leased equipment)
9	General Electric Capital Corporation	Loss Payee
10	CitiCapital Technology Finance, Ltd	5343 Dundas Street, Toronto (leased equipment)
11	The Manufacturers Life Ins. Co.	?

BUSINESS AUTOMOBILE COVERAGE

Company: Chubb Insurance Co. of Canada
Policy Number: CO3376261
Policy Term: 07/01/03 to 07/01/04
Premium: \$3,264.32 Canadian **

All Limits Shown are in Canadian Dollars

<u>LIMIT</u>	<u>COVERAGE</u>
\$1,000,000	Liability – Bodily Injury and Property Damage
\$	Accident Benefits
\$1,000,000	Uninsured Motorist Coverage
\$ 0	Direct Compensation Property Damage Deductible
\$ 500	Collision Deductible

Vehicles

1	2000	Ford Focus	#80255
2	2000	Ford Focus	#80256
3	1999	Honda Odyssey	#00912
4	2000	Ford Windstar	#68811

** Endorsement pending to add MIPPS vehicles to policy.

PREMIUM SUMMARY

COMMERCIAL PACKAGE POLICY	
Estimated Premium	\$85,025CA
BUSINESS AUTOMOBILE POLICY	\$ 3,264CA
TOTAL PREMIUM	\$88,289CA

Schedule 6.1 (r)
Guarantees

Nil.

SCHEDULE 6.1(U)

Intellectual Property

TRADEMARKS**PRIMUS TELECOMMUNICATIONS CANADA INC.**

(formed by the amalgamation of the following companies on Dec. 30, 1999 London Telecom Network Inc., Wintel Communications Inc., Totalline Communications Inc., LTN Marketing Inc., Telephone Savings Network Ltd., Eashreach Communications Inc. and Globalserve Communications Inc.)

Owned

TRADE-MARK	SERVICES		STATUS
800-LTN-FLAT	Services: telecommunication services, namely, long distance voice and data transmission services	Appln.: Filed: Regn. No.: Regn. Date: Renewal Due:	869,332 February 12, 1998 TMA 513,635 July 29, 1999 July 29, 2014
800-363-FLAT	telecommunication services, namely, long distance voice and data transmission services	Appln.: Filed: Regn. No.: Regn. Date: Renewal Due:	869,331 February 12, 1998 TMA 515,437 August 26, 1999 August 26, 2014
BPS	phone service carried over high speed internet connection	Appln.: Filed: Status: Awaiting examination	1,196,778 November 19, 2003
BROADBAND PHONE SERVICE BPS	phone service carried over high speed internet connection	Appln.: Filed: Status: Awaiting examination	1,196,294 November 14, 2003
BROADBAND VOICE SERVICE BVS	phone service carried over high speed internet connection	Appln.: File: Status: Awaiting examination	1,196,296 November 14, 2003
BVS	phone service carried over high speed internet connection	Appln.: Filed: Status: Awaiting examination	1,196,779 November 19, 2003
COMPARE AND REWARD	Telecommunication services, namely long distance telephone services	Appln.: Filed: Regn. No.: Regn. Date: Renewal Due:	1,157,584 November 5, 2002 TMA 603,341 February 26, 2004 February 26, 2019
EASYREACH COMMUNICATIONS	Telecommunications services	Appln.: Filed: Regn. No.: Regn. Date: Renewal Due:	843,831 April 30, 1997 TMA 498,070 July 30, 1998 July 30, 2013

TRADE-MARK	SERVICES		STATUS
GLOBALSERVE	1) Internet provider; registration of domain names; World Wide Web (WWW) development and publishing; consulting and training in the fields of programming and software development; office automation and telecommunications, namely making recommendations for selection of internal cable systems. (2) Conducting wireless communications, and on-line commerce; and consulting in the field of hardware development ancillary to electronic communication	Appln.: Filed: Regn. No.: Regn. Date: Renewal Due:	798,806 December 4, 1995 TMA 468,136 January 2, 1997 January 2, 2013
LONDON TELECOM	provision of telecommunication services	Appln.: Filed: Regn. No.: Regn. Date: Renewal Due:	719,836 January 4, 1993 TMA 423,877 February 25, 1994 February 25, 2009
LONDON TELECOM NETWORK	provision of telecommunication services	Appln.: Filed: Regn. No.: Regn. Date: Renewal Due:	719,835 January 4, 1993 TMA 423,876 February 25, 1994 February 25, 2009
London Telecom Network	telecommunication services	Appln.: Filed: Regn. No.: Regn. Date: Renewal Due:	789,507 August 8, 1995 TMA 465,850 November 6, 1996 November 6, 2011
LONDON TELECOM NETWORK	telecommunications services	Appln.: Filed: Regn. No.: Regn. Date: Renewal Due:	860,690 November 5, 1997 TMA 535,474 October 23, 2000 October 23, 2015
PARLEZ HAUTE VITESSE	telecommunication services, voice services carried over high speed internet connection	Appln.: Filed: Status: Awaiting examination	1,209,715 March 15, 2004
PRIMUS ANYTIME CONFERENCING SERVICES	teleconferencing services, namely, a service enabling user initiated or operator assisted telephone, video or web based conferences between two or more parties at two or more locations via telephone, data, internet and/or computer networks and related conference bridging equipment carried over or connected to public and/or private telecommunications networks	Appln.: Filed: Status: Awaiting examination	1,179,941 June 11, 2003

TRADE-MARK	SERVICES		STATUS
PRIMUS ANYTIME PLUS CONFERENCE SERVICES	Teleconferencing services, namely, a service enabling user initiated or operator assisted telephone, video or web based conferences between two or more parties at two or more locations via telephone, data, internet and/or computer networks and related conference bridging equipment carried over or connected to public and/or private telecommunications networks	Appln.: Filed: Status: Awaiting examination	1,179,938 June 11, 2003
PRIMUS CONFERENCE SERVICES	teleconferencing services, namely, a service enabling user initiated or operator assisted telephone, video or web based conferences between two or more parties at two or more locations via telephone, data, internet and/or computer networks and related conference bridging equipment carried over or connected to public and/or private telecommunications networks	Appln.: Filed: Status: Awaiting examination	1,179,935 June 11, 2003
PRIMUS DATA SAFE	computer software for use in database management, namely data storage via the internet operation of computer based database storage and retrieval system	Appln.: Filed: Status: Awaiting examination	1,209,721 March 15, 2004
PRIMUS E-CARE	allow customers to manage services on-line and in real time such as set-up automatic monthly payments, make on-time payments, sign-up to receive monthly statements, make changes to current services and sign up for new services	Appln.: Filed: Status: Awaiting examination	1,196,295 November 14, 2003
PRIMUS ONE TIME CONFERENCE SERVICES	teleconferencing services, namely, a service enabling user initiated or operator assisted telephone, video or web based conferences between two or more parties at two or more locations via telephone, data, internet and/or computer networks and related conference bridging equipment carried over or connected to public and/or private telecommunications networks	Appln.: Filed: Status: Awaiting examination	1,179,942 June 11, 2003

TRADE-MARK	SERVICES		STATUS
PRIMUS WEBTIME CONFERRING SERVICES	teleconferencing services, namely, a service enabling user initiated or operator assisted telephone, video or web based conferences between two or more parties at two or more locations via telephone, data, internet and/or computer networks and related conference bridging equipment carried over or connected to public and/or private telecommunications networks	Appln.: Filed: Status: Awaiting examination	1,179,944 June 11, 2003
REVERSE CALLING	telecommunication services namely inter-exchange telephone calling services	Appln.: Filed: Regn. No.: Regn. Date: Renewal Due:	751,926 April 8, 1994 TMA 451,154 December 1, 1995 December 1, 2010
SERVICE ELECTRONIQUE PRIMUS	allow customers to manage services on-line and in real time such as set-up automatic monthly payments, make on-time payments, sign-up to receive monthly statements, make changes to current services and sign up for new services	Appln.: Filed: Status: Awaiting examination	1,209,720 March 15, 2004
SERVICE ELECTRONIQUE WIN- TEL	allow customers to manage services on-line and in real time such as set-up automatic monthly payments, make on-time payments, sign-up to receive monthly statements, make changes to current services and sign up for new services	Appln.: Filed: Status: Awaiting examination	1,209,724 March 15, 2004
TALKBROADBAND	telecommunication services namely, voice services carried over high speed internet connection	Appln.: Filed: Status: Awaiting examination	1,203,001 January 8, 2004
TELE-FRIEND	services respecting a telephone discount referral program	Appln.: Filed: Regn. No.: Regn. Date: Renewal Due:	734,181 August 3, 1993 TMA 436,619 December 2, 1994 December 2, 2009
The London Telecom Group	telecommunications services	Appln.: Filed: Regn. No.: Regn. Date: Renewal Due:	860,691 November 5, 1997 TMA 504,990 December 3, 1998 December 3, 2013
TotalLine Communications Inc.	voice and data telecommunications services	Appln.: Filed: Regn. No.: Regn. Date: Renewal Due:	867,564 January 26, 1998 TMA 522,250 January 26, 2000 January 26, 2015

TRADE-MARK	SERVICES	STATUS
TotalLine	voice and data telecommunications services	Appln.: 867,563 Filed: January 26, 1998 Regn. No.: TMA 522,632 Regn. Date: February 1, 2000 Renewal Due: February 1, 2015
WIN-TEL	telecommunication services, namely data and voice telecommunications, namely delivery of messages by electronic transmission of data and messages by facsimile transmission, telegram transmission, electronic mail services, electronic voice message service, namely, the recordal, storage and subsequent delivery of voice messages by telephone	Appln.: 1,209,722 Filed: March 15, 2004 Status: Awaiting examination
WIN-TEL E-CARE	allow customers to manage services on-line and in real time such as set-up automatic monthly payments, make on-time payments, sign-up to receive monthly statements, make changes to current services and sign up for new services	Appln.: 1,209,723 Filed: March 15, 2004 Status: Awaiting examination
WORLD TALK	telecommunications services, namely interexchange telephone calling services	Appln.: 798,307 Filed: November 27, 1995 Regn. No.: TMA 473,151 Regn. Date: March 20, 1997 Renewal Due: March 20, 2012

Licensed

TRADE-MARK	SERVICES	STATUS
PRIMUS	Services: Communication services, namely, transmission of voice, video and data by electronic means, international and domestic long distance telephone services	Appln.: 1,102,123 Filed: May 7, 2001 Status: In examination stage.
PRIMUS & DESIGN	Services: Communication services, namely, transmission of voice, video and data by electronic means, international and domestic long distance telephone services	Appln.: 1,102,122 Filed: May 7, 2001 Status: In examination stage.

Primus

PATENTS

Nil.

Schedule 6.1 (z)
Restrictive Covenants

Nil.

Nil.

Schedule 7.1(k)
Litigation

PRIMUS TELECOMMUNICATIONS CANADA INC.

March 2004

SOLICITOR CLIENT PRIVILEGE

(All \$ amounts are CDN)

1. Martin Steinwald and Mercedes Essebag and Michel Hanna and Lucette Cloutier (the "Plaintiffs") v. 3694798 Canada Inc ("Numbered Co.") and PTCI.

Background: The Plaintiffs came to the employ of Numbered Co. and PTCI through a series of commercial transactions. Subsequent to the commercial transactions, the Plaintiffs signed employment agreements with Numbered Co and then on a later date, when presented with new employment agreements by PTCI, refused to sign said agreements (the Plaintiffs were not satisfied with terms thereof). On a later date, the Plaintiffs allege that the terms were eventually settled by PTCI in their favour. Due to a company-wide restructuring, the Plaintiffs' employment was terminated shortly thereafter.

Status: The Plaintiffs have filed a Statement of Claim dated August 2, 2001. The documents were served in person on legal counsel for PTCI August 9, 2001. The Plaintiffs are claiming \$337,500., \$337,500., \$60,000, and \$60,000 respectively, (total = \$795,000) for dismissal from employment without cause, damage to reputation, damages suffered (to due restrictive covenants etc.). In addition the Plaintiffs are asking the court to declare the restrictive covenants null and void or to reduce the covenants.

Evaluation: Management believes the claim is unfounded. The matter has been forwarded to outside counsel.

Outside Counsel: Marie-Hélène Riverin, avocate, Lavery, de Billy, Tel: (418) 266-3082, Cell Phone: (418) 952-9608, Fax: (418) 688-3458

Amount Reserved: \$60,000

2. 3540057 CANADA INC. V. 3252647 CANADA INC. (AMALGAMATED INTO 3694798 CANADA INC.) AND 3694798 CANADA INC. (PRIMUS CANADA IN MONTREAL HEREINAFTER THE "DEFENDANTS"). CLAIM BROUGHT IN MONTREAL, QUEBEC.

Background: According to the Share Purchase Agreement (the "Agreement") entered into on or around June 13 2002, Primus acquired the shares of 3694798 Canada Inc. ("3694798"), one of the companies being sued by 3540057 Canada Inc. ("3540057"). 3540057 entered into a Service Agreement with 3252647 Canada Inc. ("3252647"), the second company being sued by 3540057, on or around October 29, 1999. In its action, 3540057 is suing 3252647 and 3694798 for unpaid invoices dated January 2001, May 2001, and June 2001. On or around June 13, 2000, the Service Agreement was amended and 3252647 was replaced with

3694798 as the party to the Service Agreement with 3540057, and on that same day, Primus acquired all issued and outstanding shares in the capital of 3694798, as evidenced by the Agreement. Pursuant to the Agreement, the vendor (and the guarantors) warranted to Primus that, except as set forth in the Agreement and on the Closing Data Balance Sheet, 3694798 has no outstanding indebtedness, liabilities or obligations, and there is no existing condition, situation or set of circumstances which would be expected to result in any such liabilities. The invoices 3540057 is claiming payment of are dated in 2001. However, one of the exhibits supports that the invoices are for billing charges that were incurred prior to the signing of the Agreement, but had never been invoiced to 3694798. If this is the case, we will be able to invoke warranty regarding no outstanding indebtedness etc. in the Agreement as a defense. Amount being claimed is \$174,000.

Status: *Awaiting a trial date.*

Evaluation: Management is reasonably confident that this case has no merit.

Outside Counsel: Tetiana Gerych: Phillips Friedman Kolter, Montreal Quebec. Telephone (514) 878-4676.

Amount Reserved: None

3. Home Service Club of Canada (“HSC”) v. ACC Long Distance (“ACC”) and Primus Telecommunications Canada Inc.

Background: In 1993, HSC and ACC entered into an agreement whereby HSC and ACC would market long distance services to HSC members and ACC would pay HSC a residual commission if HSC’s members subscribed for ACC’s services. The agreement was terminated in 1999 but according to the agreement, ACC was obligated to continue to provide residual commissions for a period after termination. On or about the same time of the termination of the agreement, Primus Canada began the acquisition of ACC and various other entities. ACC was responsible to pay affinity residuals until the billing system migration in August 2000. There were some issues with the migration of billing systems and this file was not migrated.

Status: *No court claim filed.*

Evaluation: The senior executive for residential services has calculated that at a maximum Primus Canada’s exposure to HSC is \$50,000.00.

Outside Counsel: Peter Ruby, Goodmans LLP. Toronto, Ontario, (416) 979-2211.

Amount Reserved: \$50,000.

4. Steve Adessky (“Adessky”) vs. Gabriel Hiltser (“Hiltser”) and 3694798 Canada Inc. (formerly 3393101)

Background: Adessky (former employee of Hiltser and what was then 3393101) is claiming against Hiltser and 3393101 for an issue with respect to some personal loans made

to Adessky in 1999 and 2000 and with respect to a t-4 and salary for the year 2000 - (prior to primus purchasing the shares of 3694798). 3393101 was amalgamated with other companies to form 3694798. Primus Telecommunications Canada, Inc. then acquired the shares of 3694798 on June 13, 2000. The total claim is \$85,004.23.

Evaluation and Status: Management believes this claim is unfounded and will rely on reps and warranties in the share purchase agreement. Quebec counsel has advised that she believes the matter will be settled shortly between Adessky and Hiltser without the involvement of Primus Canada. The defendants have examined the plaintiff and we are now waiting for undertakings from the plaintiff.

Outside Counsel: Tetiana Gerych: Phillips Friedman Kolter, Montreal Quebec. Telephone (514) 878-4676.

Amount Reserved: None

5. Martin Richards Design & Contracting Inc. v Primus Canada

Background: The Plaintiffs subscribed for Primus Canada's domain name hosting and registration services in 2001. Despite notices sent by Primus Canada to the Plaintiffs, the Plaintiffs allowed the domain name to lapse in 2002. The amount claimed is \$100,000.00 in Canadian funds plus special damages in an amount not yet ascertained.

Evaluation and Status: Currently being determined. We are gathering evidence to support our defense that the onus was on the Plaintiffs to renew their domain name and subsequently will file a Statement of Defense.

Outside Counsel: Peter Ruby, Goodmans LLP. Toronto, Ontario, (416) 979-2211.

HUMAN RESOURCES:

1. Godwin Amega ("Amega") vs. Primus Canada.

Background: Amega was hired on a six (6) month contract in a bilingual customer service position for the Vancouver office. During his first three months of employment it became evident that his performance was not meeting Primus Canada's expectations. The plaintiff received numerous customer complaints even after additional training was provided. The contract was terminated within the first three months on August 30, 2002. Filed with the Canadian Human Rights Commission. Amega believes that he was terminated because of his ethnic background. 1.) Request full reinstatement including salary plus rise in standard of living with two months salary for lost wages or 2.) Request of 2 years full time salary plus an additional amount to be determined at later date to compensate for psychological suffering.

Status and Evaluation: Management believes the claim is unfounded. The matter has been forwarded to outside counsel. Outside counsel has requested the case be dismissed. The Human Rights Commission is proceeding with the investigation.

Outside counsel: Joe Conforti, Goodmans LLP, Phone: (416) 597-4125

Amount Reserved: None

2. **Mona Harripersad (“Harripersad”) v. Primus Canada**

Background: Decision was made to terminate plaintiffs employment based on performance. Harripersad is claiming \$9,000.00 for unjust dismissal. Indication in May 2002 that this issue was forwarded to the Canada Labour Board. No contact has been received to date from Canada Labour Board. Full severance was not paid due to lack of signed release documentation. The additional \$500.00 offered on a gratuitous basis was not accepted by Harripersad.

Evaluation and Status: Management is confident that performance concerns were addressed adequately prior to decision to terminate. Uncertain as to whether further action is pending.

Amount Reserved: None

3. **Malika Chbani (“Chbani”) v. Primus Canada**

Background: Chbani has filed a complaint with the Canadian Human Rights Commission claiming adverse differential treatment because of national or ethnic origin (Arabic) and religion (Muslim). Specifically, Chbani claims two directors’ attitudes changed after September 11, 2001. Chbani was hired as a Customer Service Representative in the Vancouver, British Columbia, Primus Canada office in 1998. In response to an internal job opportunity, Chbani was transferred to the Primus Canada Oakville office in February 2001. Subsequent to that Chbani, applied for and took another position in the Toronto office, Primus Canada in Feb 2002. Chbnai resigned February 2003 and in her resignation letter cited her resignation was due to the fact that she had reconciled with her family and was moving back to Vancouver.

Evaluation and Status: Management believes this complaint is unfounded, based on inaccurate details provided, as well as the breadth of the complaint. This matter has been forwarded to outside counsel. Primus Canada has communicated a willingness to participate in mediation, as requested by the Commission.

Schedule 8.2(o)
Management Fees

Described below are the current management fees and other Inter-Company transactions between the Obligors and the Parents:

Management Fees

Description – The Borrower is charged a fee to reflect their prorated share of the Parents Selling, General and Administrative expenses. The proration is based on revenues. The fee is marked up 15%. The Borrower is also charged back for certain direct costs paid on their behalf by the Parents.

Cost in 2003 - \$3,360,481

Start Date – January 1, 2000

End Date – ongoing

Inter-company Loan

Description – Term promissory notes with no interest or principal repayment requirements until the end of the term. Prepayments may be made without notice, premium or penalty.

Amounts and interest rates on the notes are as follows:

- The Shareholder owes the Immediate Parent \$108,707,512 at December 31, 2003 bearing interest at 18% *per annum* compounded annually.
- The Borrower owes the Shareholder \$115,655,958 at December 31, 2003 bearing interest at 18.5% *per annum* compounded annually.

Start Date – January 1, 2000

End Date – January 1, 2006

Note – a second promissory note for up to \$25,000,000 was entered into on January 1, 2001. The principal for this note has been fully repaid. There is \$637,876 in interest charged on this note that remains unpaid at December 31, 2002.

Inter-company Transactions

Description – The Ultimate Parent provides the following services to the Borrower on an ongoing basis:

- International Long Distance – transfer price based on the Ultimate Parent's costs
- Internet Transit and Connecting Private Line Circuits – on a cost flow through basis calculated on a cost per megabit with the number of megabits determined based on the monthly traffic at the 95% percentile.

Network Management

Description The Borrower is charged a fee to reflect their prorated Share of the Parents expenses related to the operation of the international telecommunications network.

Cost in 2003 - \$2,326,752

Start Date – January 1, 2000

End Date – ongoing

Trademark Licensing Agreement

Effective January 31, 2003 the Borrower entered into a Trademark Licensing Agreement with Primus Telecommunications IHC, Inc. which requires payment of licensing fees of 2.5% of revenues. In 2003 the Borrower incurred \$7,543,756 in expenses associated with this agreement.

- Software licenses– cost of license allocated either based on number of users for usage based licenses or shared evenly between all user countries.

The Borrower also provides services to the Ultimate Parent based on the Borrowers costs.

Note – the Ultimate Parent is investigating the income tax benefits of including a markup of up to 15% in some of the above transactions and may change the terms to minimize income taxes payable for the Obligors.

SCHEDULE 8.1(k)(iv)

COMPLIANCE CERTIFICATE

TO: THE MANUFACTURERS LIFE INSURANCE COMPANY (“Manulife”)
AND TO: [INSERT]
FROM: PRIMUS TELECOMMUNICATIONS CANADA INC. (the “Borrower”)
RE: AMENDED AND RESTATED LOAN AGREEMENT DATED AS OF april , 2004, (the “LOAN AGREEMENT”) AMONG, THE BORROWER, 3082833 NOVA SCOTIA COMPANY AND MANULIFE

All capitalized terms used in this Certificate shall have the meaning ascribed thereto in the Loan Agreement unless otherwise indicated.

We, , President, and , Vice-President, Finance, of the Borrower, do hereby certify in our capacity as officers of, and for and on behalf of the Borrower, and without personal liability, that [during the fiscal quarter of the Borrower from , to or the fiscal year of the Borrower ended •, 20 (the “Period”)]:

1. Calculations: For the purposes of the calculation of the Borrower’s compliance with certain covenants contained in the Loan Agreement for the Period, the following was utilized:

- (a) Current Assets = \$ •
(b) Current Liabilities = \$ •
(c) EBITDA = \$ •
(d) Interest Expense = \$ •
(e) Total Debt = \$ •
(f) Amounts paid to Shareholder and/or Parent and characterization of payments:
\$• Interest
\$• Loan Repayment
\$• Fees

\$• Advances

\$• Dividends

\$• Other

2. **Minimum EBITDA - Section 8.1 (t):** EBITDA for each of the three months in the Period was as follows:

(a) Month 1: •

(b) Month 2: •

(c) Month 3: •

3. **Leverage Ratio - Section 8.1(u):** The Leverage Ratio at the end of the Period was•.

4. **Current Ratio - Section 8.1(v):** The Current Ratio at the end of the Period was•.

5. **Forecasted EBITDA – Section 8.1 (w):** Forecasted EBITDA for the twelve month period ending on the 1st anniversary of the last day of the Period is greater than/less than [~~delete one~~] \$48,000,000.

6. **Cash Balance- Section 8.1 (x) –** The cash balance at the end of the Period calculated in accordance with Section 8.1 (x) was \$•.

7. **Distributions - Sections 8.2(h)and (v):** No distributions or payments of any kind have been made contrary to Sections 8.2(h) or (v) of the Loan Agreement.

8. **Capital Expenditures - Section 8.2(j):** Capital Expenditures during the current fiscal year to the end of the current Period are \$•.

9. **Margin – Section 8.2(z).** The trade accounts receivable of the Borrower as defined in section 8.2(z) at the end of the Period was •.

10. All representations and warranties contained in the Loan Agreement are true and correct as of the date hereof and there exists no Event of Default under the Loan Agreement or the Senior Facility Agreement as of the date hereof.

[If any of the above items are not in compliance with the Loan Agreement, provide reasonable details of non-compliance and corrective measures.]

CERTIFIED this day of

, 200•.

President

Vice-President, Finance

iv

[LOGO]
Nova Scotia

CERTIFICATE OF STATUS

Registry Number

3082833

I hereby certify that according to the records of this office 3082833 NOVA SCOTIA COMPANY was formed by virtue of amalgamation on January 31, 2004 under the Companies Act of Nova Scotia as an unlimited liability company and is a valid and subsisting company.

I further certify that according to the records of this office 3082833 NOVA SCOTIA COMPANY

was registered under the Corporations Registration Act of Nova Scotia on January 31, 2004 and the certificate is still in force.

/s/ [ILLEGIBLE]

April 7, 2004

Agent of the Registrar of Joint Stock Companies

Date of Issue

Request ID: 006006018 Province of Ontario Date Report Produced: 2004/04/07
Demande n° : Province de l'Ontario Document Product le:
Transaction
ID: 23375434 Ministry of Consumer and Business Services Time Report Produced: 12:47:44
Transaction
no° : Ministère des Services aux consommateurs et aux entreprises Imprimé à :
Category ID: CT Companies and Personal Property Security Branch
Catégorie : Direction des compagnies et des sûretés mobilières

**CERTIFICATE OF STATUS
ATTESTATION DU STATUT JURIDIQUE**

This is to certify that according to the records of the
Companies and Personal Property Security Branch

D'après les dossiers de la Direction des compagnies et des
sûretés mobilières, nous attestons que la société

PRIMUS TELECOMMUNICATIONS CANADA INC.

Ontario Corporation Number

Numéro matricule de la société (Ontario)

001575460

is a corporation incorporated, amalgamated or continued
under the laws of the Province of Ontario.

est une société constituée constituée, prorogée ou née d'une
fusion aux termes des lois de la Province de l'Ontario.

The corporation came into existence on

La société a été fondée le

JUNE 04 JUIN, 2003

and has not been dissolved.

et n'est pas dissoute.

Dated

Fait le

APRIL 07 AVRIL, 2004

/s/ [ILLEGIBLE]

Director
Directrice

The issuance of this certificate in electronic form is authorized by the Director of Companies and Personal Property Security Branch

La délivrance du présent certificat sous forme électronique est autorisée per la Directrice de la Direction des compagnies et des sûretés mobilières.

Delaware

The First State

I, HARRIET SMITH WINDSOR, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY THAT "PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED" IS DULY INCORPORATED UNDER THE LAWS OF THE STATE OF DELAWARE AND IS IN GOOD STANDING AND HAS A LEGAL CORPORATE EXISTENCE NOT HAVING BEEN CANCELLED OR DISSOLVED SO FAR AS THE RECORDS OF THIS OFFICE SHOW AND IS DULY AUTHORIZED TO TRANSACT BUSINESS.

THE FOLLOWING DOCUMENTS HAVE BEEN FILED:

CERTIFICATE OF INCORPORATION, FILED THE FOURTH DAY OF FEBRUARY, A.D. 1994, AT 11 O'CLOCK A.M.

CERTIFICATE OF AMENDMENT, FILED THE THIRTIETH DAY OF MARCH, A.D. 1995, AT 4:30 O'CLOCK P.M.

CERTIFICATE OF AMENDMENT, CHANGING ITS NAME FROM "GLOBAL TELECOMMUNICATIONS, INC." TO "PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED", FILED THE TWENTY-FIRST DAY OF DECEMBER, A.D. 1995, AT 3:30 O'CLOCK P.M.

CERTIFICATE OF AMENDMENT, FILED THE TWNETY-EIGHTH DAY OF FEBRUARY, A.D. 1996, AT 1:45 O'CLOCK P.M.

CERTIFICATE OF AMENDMENT, FILED THE FOURTH DAY OF NOVEMBER, A.D. 1996, AT 11 O'CLOCK A.M.

/s/ Harriet Smith Windsor

2375835 8310
040214537

[SEAL]

Harriet Smith Windsor, Secretary of State

AUTHENTICATION: 3007305

DATE: 03-23-04

Delaware

The First State

CERTIFICATE OF AMENDMENT, FILED THE FOURTH DAY OF NOVEMBER, A.D. 1996, AT 12 O'CLOCK P.M.

RESTATED CERTIFICATE, FILED THE FIFTH DAY OF JUNE, A.D. 1998, AT 3:15 O'CLOCK P.M.

CERTIFICATE OF DESIGNATION, FILED THE THIRTIETH DAY OF DECEMBER, A.D. 1998, AT 9:25 O'CLOCK A.M.

CERTIFICATE OF CHANGE OF REGISTERED AGENT, FILED THE SEVENTH DAY OF MAY A.D. 1999, AT 9 O'CLOCK A.M.

CERTIFICATE OF AMENDMENT, FILED THE TWELFTH DAY OF JULY, A.D. 2000, AT 12:30 O'CLOCK P.M.

CERTIFICATE OF DESIGNATION, FILED THE THIRTIETH DAY OF DECEMBER, A.D. 2002, AT 4 O'CLOCK P.M.

CERTIFICATE OF CHANGE OF REGISTERED AGENT, FILED THE TWENTY-FIRST DAY OF FEBRUARY, A.D. 2003, AT 9:54 O'CLOCK A.M.

CERTIFICATE OF CHANGE OF REGISTERED AGENT, FILED THE THIRD DAY OF NOVEMBER, A.D. 2003, AT 4:42 O'CLOCK P.M.

AND I DO HEREBY FURTHER CERTIFY THAT THE AFORESAID CERTIFICATES ARE THE ONLY CERTIFICATES ON RECORD OF THE AFORESAID CORPORATION.

AND I DO HEREBY FURTHER CERTIFY THAT THE SAID "PRIMUS

/s/ Harriet Smith Windsor

2375835 8310
040214537

[SEAL]

Harriet Smith Windsor, Secretary of State

AUTHENTICATION: 3007305

DATE: 03-23-04

Delaware

The First State

TELECOMMUNICATIONS GROUP, INCORPORATED" WAS INCORPORATED ON THE FOURTH DAY OF FEBRUARY, A.D. 1994.

AND I DO HEREBY FURTHER CERTIFY THAT THE ANNUAL REPORTS HAVE BEEN FILED TO DATE.

AND I DO HEREBY FURTHER CERTIFY THAT THE FRANCHISE TAXES HAVE BEEN PAID TO DATE.

/s/ Harriet Smith Windsor

2375835 8310
040214537

[SEAL]

Harriet Smith Windsor, Secretary of State

AUTHENTICATION: 3007305

DATE: 03-23-04

Delaware

The First State

I, HARRIET SMITH WINDSOR, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY THAT "PRIMUS TELECOMMUNICATIONS HOLDING, INC." IS DULY INCORPORATED UNDER THE LAWS OF THE STATE OF DELAWARE AND IS IN GOOD STANDING AND HAS A LEGAL CORPORATE EXISTENCE NOT HAVING BEEN CANCELLED OR DISSOLVED SO FAR AS THE RECORDS OF THIS OFFICE SHOW AND IS DULY AUTHORIZED TO TRANSACT BUSINESS.

THE FOLLOWING DOCUMENTS HAVE BEEN FILED:

CERTIFICATE OF INCORPORATION, FILED THE TWENTY-NINTH DAY OF OCTOBER, A.D. 2003, AT 2:18 O'CLOCK P.M.

AND I DO HEREBY FURTHER CERTIFY THAT THE AFORESAID CERTIFICATES ARE THE ONLY CERTIFICATES ON RECORD OF THE AFORESAID CORPORATION.

AND I DO HEREBY FURTHER CERTIFY THAT THE SAID "PRIMUS TELECOMMUNICATIONS HOLDING, INC." WAS INCORPORATED ON THE TWENTY-NINTH DAY OF OCTOBER, A.D. 2003.

AND I DO HEREBY FURTHER CERTIFY THAT THE ANNUAL REPORTS HAVE BEEN FILED TO DATE.

AND I DO HEREBY FURTHER CERTIFY THAT THE FRANCHISE TAXES HAVE BEEN PAID TO DATE.

/s/ Harriet Smith Windsor

3721213 8310
040214531

[SEAL]

Harriet Smith Windsor, Secretary of State

AUTHENTICATION: 3007296

DATE: 03-23-04

Delaware

The First State

I, HARRIET SMITH WINDSOR, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY THAT "PRIMUS TELECOMMUNICATIONS INTERNATIONAL, INC." IS DULY INCORPORATED UNDER THE LAWS OF THE STATE OF DELAWARE AND IS IN GOOD STANDING AND HAS A LEGAL CORPORATE EXISTENCE NOT HAVING BEEN CANCELLED OR DISSOLVED SO FAR AS THE RECORDS OF THIS OFFICE SHOW AND IS DULY AUTHORIZED TO TRANSACT BUSINESS.

THE FOLLOWING DOCUMENTS HAVE BEEN FILED:

CERTIFICATE OF INCORPORATION, FILED THE TWENTY-SIXTH DAY OF JANUARY, A.D. 1996, AT 9 O'CLOCK A.M.

CERTIFICATE OF CHANGE OF REGISTERED AGENT, FILED THE NINTH DAY OF DECEMBER, A.D. 2002, AT 9 O'CLOCK A.M.

CERTIFICATE OF CHANGE OF REGISTERED AGENT, FILED THE SECOND DAY OF MAY, A.D. 2003, AT 5:48 O'CLOCK P.M.

CERTIFICATE OF CHANGE OF REGISTERED AGENT, FILED THE THIRD DAY OF NOVEMBER, A.D. 2003, AT 4:23 O'CLOCK P.M.

AND I DO HEREBY FURTHER CERTIFY THAT THE AFORESAID CERTIFICATES ARE THE ONLY CERTIFICATES ON RECORD OF THE AFORESAID CORPORATION.

AND I DO HEREBY FURTHER CERTIFY THAT THE SAID "PRIMUS

/s/ Harriet Smith Windsor

2586455 8310
040214528

[SEAL]

Harriet Smith Windsor, Secretary of State

AUTHENTICATION: 3007294
DATE: 03-23-04

Delaware

The First State

TELECOMMUNICATIONS INTERNATIONAL, INC.” WAS INCORPORATED ON THE TWENTY-SIXTH DAY OF JANUARY, A.D. 1996.

AND I DO HEREBY FURTHER CERTIFY THAT THE ANNUAL REPORTS HAVE BEEN FILED TO DATE.

AND I DO HEREBY FURTHER CERTIFY THAT THE FRANCHISE TAXES HAVE BEEN PAID TO DATE.

/s/ Harriet Smith Windsor

25864558310
040214528

[SEAL]

Harriet Smith Windsor, Secretary of State

AUTHENTICATION: 3007294

DATE: 03-23-04

CERTIFICATIONS

I, K. Paul Singh, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Primus Telecommunications Group, Incorporated;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15e and 15d-15e) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15f and 15d-15f) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusion about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operations of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial condition; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Dated: November 9, 2004

By: /s/ K. PAUL SINGH

Name: K. Paul Singh

Title: Chairman, President and Chief Executive
Officer (Principal Executive Officer) and
Director

CERTIFICATIONS

I, Neil L. Hazard, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Primus Telecommunications Group, Incorporated;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15e and 15d-15e) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15f and 15d-15f) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusion about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operations of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial condition; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Dated: November 9, 2004

By: /s/ NEIL L. HAZARD

Name: Neil L. Hazard

Title: Executive Vice President, Chief Operating
Officer, and Chief Financial Officer (Principal
Financial Officer)

CERTIFICATION

Pursuant to Section 906 of the Public Company Accounting Reform and Investor Protection Act of 2002 (18 U.S.C. § 1350, as adopted), K. Paul Singh, the Chief Executive Officer of Primus Telecommunications Group, Incorporated (the "Company"), and Neil L. Hazard, the Chief Financial Officer of the Company, each hereby certifies that, to the best of his knowledge:

1. The Company's Quarterly Report on Form 10-Q for the period ended September 30, 2004, to which this Certification is attached as Exhibit 32 (the "Periodic Report"), fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Periodic Report fairly presents, in all material respects, the financial condition of the Company at the end of the period covered by the Periodic Report and results of operations of the Company for the period covered by the Periodic Report.

Dated: November 9, 2004

/s/ K. PAUL SINGH

K. Paul Singh

Chairman, President and Chief Executive Officer
(Principal Executive Officer) and Director

/s/ NEIL L. HAZARD

Neil L. Hazard

Executive Vice President, Chief Operating Officer,
and Chief Financial Officer (Principal Financial
Officer)